

CHAPTER 5

Hongkong Post

Operation of the Hongkong Post

**Audit Commission
Hong Kong
27 October 2015**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 65 of the Director of Audit contains 10 Chapters which are available on our website at <http://www.aud.gov.hk>

Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

OPERATION OF THE HONGKONG POST

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OPERATION OF THE HONGKONG POST

Executive Summary

1. The Hongkong Post (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. In August 1995, a Post Office Trading Fund (POTF) was established to manage and account for the operation of the HKP. As at 31 March 2015, the HKP had 7,032 staff, comprising 5,090 civil servants and 1,942 non-civil-service contract staff. Its postal facilities include two mail processing centres (Air Mail Centre (AMC) and Central Mail Centre (CMC)), 127 post offices, 28 delivery offices (DOs), some 1,100 street posting boxes and some 270 departmental vehicles. In 2014-15, the HKP handled 1,212 million mail items comprising 1,038 million (86%) local mail items and 174 million (14%) international mail items.

2. For the 20-year period from the inception of the POTF in 1995-96 to 2014-15, the HKP recorded operating loss in eight years and did not achieve the target rate of return on fixed assets in 14 years. For 2014-15, the HKP recorded a turnover of \$5,344 million and operating costs of \$5,175 million, i.e. an operating profit of \$169 million and a rate of return on fixed assets of 4.9% (target: 5.9%). The Audit Commission (Audit) has recently conducted a review on the operation of the HKP.

Management of mail processing

3. *Underpayment of postage.* According to the HKP, the risk of underpayment was lower for 88% of locally posted mail items which were prepaid or paid by permit/meter/postage label. The remaining 12% of locally posted mail items were paid by stamps (about 400,000 per day). Measures used by the HKP to prevent or detect underpayment of postage include educating and reminding the public to pay correct postage, conducting sample checks on mail items and putting in place a surcharge mechanism. Audit conducted three different tests to assess the effectiveness of the HKP's measures in preventing or detecting underpayment of postage: (a) Audit sent out 50 local test letters with no or insufficient postage stamps in mid-June to mid-July 2015 to ascertain whether letters with no or insufficient

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postage could pass through the HKP's detection mechanism without being intercepted. Audit found that 43 letters (86%) successfully passed through the HKP's detection mechanism and were delivered to the addressees without being surcharged; (b) Audit also selected and tested 546 mail items that in appearance did not have sufficient postage, to ascertain the effectiveness of the HKP's sample weight checks of mail items, and found that for 263 mail items (48.2% of 546) postage was underpaid. The underpayment was \$459.9 representing 39.4% of the correct postage required for the 263 underpaid items; and (c) for 1,190 mail items selected randomly by Audit from locally posted items paid by stamps collected from 11 street posting boxes, 97 items (8.2%) were underpaid. The amount of postage underpaid was \$99.2, representing 29.8% of the correct postage required for the 97 underpaid items and 3.5% of the correct postage required for the 1,190 items (paras. 2.4 to 2.6 and 2.9 to 2.13).

4. ***Procurement of airfreight services.*** The HKP conducts annual procurement of airfreight services for its Speedpost and airmail. The estimated contract value for the 2014-15 tender exercise was \$824.7 million. According to the Government's Stores and Procurement Regulations, for non-works service contract of a value exceeding \$5 million, financial vetting should be conducted on the tenderer. The HKP stated in the tender document that if a tenderer failed the financial vetting and the estimated value of the contract was over \$5 million, the HKP may require the selected tenderer to submit a deposit equivalent to 0.5% of the estimated contract value. Audit noted that the HKP did not require the tenderers who failed the financial vetting and whose estimated contract value exceeded \$5 million to submit a contract deposit. The HKP informed the Central Tender Board that: (a) the tenderers had been financially vetted and were considered financially capable of undertaking the contracts; and (b) the tenderers had passed the financial vetting and no contract deposit was required (paras. 2.18 and 2.20 to 2.24).

5. ***Control and administration of overtime.*** The Civil Service Regulations (CSRs) have laid down strict controls on overtime work, including overtime work performed should normally be compensated by time-off in lieu (TOIL) and where TOIL is impracticable, 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 2014-15, the number of overtime hours was 1,362,941, of which 1,115,234 hours (81.8%) were compensated by OTA (\$179 million). OTA represented, on average, 15.4% of the salaries of some 4,200 civil servants who were paid OTA (paras. 2.32, 2.34 and 2.35).

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6. ***Overtime of Mail Distribution Division.*** The Mail Distribution Division (MDD) of the Postal Services Branch is mainly responsible for the delivery of mail items to different delivery points in Hong Kong. As at 31 March 2015, there were 1,756 delivery beats under the MDD. In 2014-15, overtime hours worked by staff of the MDD and compensated by OTA were 534,790 hours, representing 48% of that of all staff of the HKP. For every delivery beat, the HKP has devised standard workload of the delivery postman and the standard time for processing and delivery of different types of mail items. Audit noted that: (a) there was no comprehensive review on the standard time for processing and delivering different mail items since March 2008; and (b) there were substantial delays in carrying out beat revision exercises (paras. 2.41, 2.42, 2.44, 2.48 and 2.50).

7. ***Monitoring of staff regularly working long overtime.*** Audit identified, for each year in the period 2010-11 to 2014-15, 50 staff (30 Postman grade staff and 20 Postal Officer grade staff) of the Postal Services Branch who had worked the largest number of overtime hours in that year and analysed their overtime hours. Audit found that: (a) many staff worked overtime on a regular basis; (b) some staff of the AMC had worked significant amount of overtime, including 14 staff who worked some 990 to 1,440 hours of overtime (average 1,115 hours) each year (1,084 hours compensated by OTA and 31 hours by TOIL); and (c) contrary to Civil Service Bureau circular, some staff were not required to exhaust TOIL before taking vacation leave (paras. 2.57, 2.59 and 2.62).

Management of post offices

8. ***Performance of post offices.*** As at 30 September 2015, there were 124 post offices and 3 mobile post offices to provide various postal and non-postal services (e.g. PayThruPost service). Audit noted that in 2014-15, 103 (81%) of the 127 post offices recorded loss, ranging from \$350,000 to \$5.2 million. Moreover, 84 (66%) post offices made loss in all the five years from 2010-11 to 2014-15. Audit noted that some post offices were located within walking distance from another post office. The HKP needs to make continuous efforts to rationalise its post office network, including closely monitoring the performance of post offices (paras. 3.2 to 3.4, 3.10 and 3.11).

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9. ***Provision of mobile post offices.*** The HKP has used mobile post office since 1960 to provide postal services to residents in remote and scattered villages. In discharge of the Government's universal postal service obligation, the HKP operates these mobile post offices to complement its network of post offices and street posting boxes. Two of the three mobile post offices serve various districts in the New Territories. Audit accompanied each of these mobile post offices on two days in August and September 2015 and noted that the number of customers and items handled for the service points were small. On average, each mobile post office served 11.5 customers and handled 12.5 items per day. For some service points, there were no customers. The two mobile post offices had been operating at an annual loss of more than \$1 million each (paras. 3.14 and 3.16).

Management of postal vehicles

10. As at 31 March 2015, the HKP had a vehicle fleet of 277 vehicles. It also hired some 350 vehicles of different types such as light goods vehicles and trucks to supplement its own fleet. In 2014-15, some 912,000 vehicle hours were used for transportation of mail items, involving expenditure of \$159 million (paras. 4.2 and 4.3).

11. ***Management of hired vehicles.*** Competition is a reliable safeguard against bidders overcharging and helps secure value for money in government procurement. As at 31 March 2015, there were 16 hired vehicle contracts, of which 15 contracts were awarded to three contractors. Similarly, for the preceding 16 contracts (commenced in the period December 2010 to August 2013), 13 contracts were awarded to two contractors. Audit examination of the tendering records indicated that in the tendering exercises conducted in 2013 to 2015, there were only a limited number of tenderers. In 2013 and 2014, the Independent Commission Against Corruption and the Government Logistics Department Tender Board respectively expressed concern on the small number of bidders (paras. 4.22 to 4.24 and 4.27).

Management of Central Mail Centre and General Post Office Building

12. **CMC.** The CMC is an integrated mail sorting centre which houses the International Mail Centre previously located in Hung Hom and the sorting centre previously located at the General Post Office (GPO) Building. It has been in full operation since November 2014. Audit's site inspection in July 2015 revealed that some 300 square metres on the fifth floor of the CMC was not in use (involving 46 work stations) (paras. 5.2, 5.3, 5.9 and 5.10).

13. **Reprovision of GPO Building.** The GPO Building is located at Connaught Place, Central. It is an eight-storey building providing accommodations for the GPO (counters, post office boxes and DO), and HKP's Headquarters and various divisions. The Government started planning for the relocation of the GPO Building as early as in May 1985 after the expiry of a lease condition that restricted the height of the GPO site. In the Director of Audit's Report No. 31 of October 1998, Audit reported on the Government's slow progress in the redevelopment of the GPO site. In the 2014 Policy Address, the Government announced that it would launch the development of Site 3 (at which the GPO Building was located) under the Urban Design Study for the New Central Harbourfront. Some 30 years have lapsed since the Government started planning for the relocation of the GPO Building and the GPO site has yet to be redeveloped (paras. 5.15 to 5.18).

Audit recommendations

14. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Postmaster General should:**

Management of mail processing

- (a) **conduct a review on the HKP's measures in detecting mail items with underpaid postage (para. 2.15(a));**

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- (b) **provide accurate information to the Central Tender Board on the results of the HKP's financial vetting and the justifications for waiving the contract deposits (para. 2.29(b));**
- (c) **monitor closely the overtime work by HKP staff to ensure compliance with the relevant CSRs and Civil Service Bureau circular, and ensure that senior management's endorsement is obtained in exceptional circumstances where non-compliance is justified (para. 2.39(a));**
- (d) **consider carrying out a comprehensive review of the standard time for processing and delivering different types of mail items (para. 2.55(a));**
- (e) **ensure that beat revision exercises are carried out in a timely manner according to the prescribed schedule (para. 2.55(b));**
- (f) **review the operation and workload of different sections at the AMC with a view to rationalising their workload and reducing the need for overtime work (para. 2.66(a));**
- (g) **remind frontline supervisors to strictly follow the relevant regulations in the granting of TOIL (para. 2.66(d)(i));**

Management of post offices

- (h) **conduct regular reviews on the performance of post offices and make efforts to improve their performance, taking into account the demand for postal services, financial viability and manpower utilisation of individual post offices (para. 3.12(a));**
- (i) **review the existing routes of the two mobile post offices serving the New Territories taking into account the service points' mail traffic and their proximity to nearby postal facilities (para. 3.18(a));**

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Management of postal vehicles

- (j) **closely monitor the utilisation of the HKP's vehicles (particularly those with low utilisation rates) and take effective actions to optimise their usage (para. 4.18(c));**
- (k) **closely monitor the extent of competition in the HKP's procurement of hired vehicles, and where necessary, take effective action to promote competition including further relaxing tender requirements or splitting contracts (para. 4.29(a));**

Management of CMC and GPO Building

- (l) **monitor the usage of work stations at the office area of the CMC to avoid prolonged vacancy (para. 5.13(b)); and**
- (m) **in collaboration with the relevant government bureaux/departments, take appropriate measures to facilitate the Government's project for the reprovisioning of the GPO Building (para. 5.20(a)).**

Response from the Government

15. The Postmaster General agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 The Hongkong Post (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. The HKP operates under the Post Office Ordinance (Cap. 98) and the Post Office Regulations (Cap. 98A). It is headed by the Postmaster General. The Commerce and Economic Development Bureau oversees the operation of the HKP (see para. 1.6).

Post Office Trading Fund

1.3 A Post Office Trading Fund (POTF) was established by a Resolution of the Legislative Council passed on 19 July 1995 under the Trading Funds Ordinance (Cap. 430) to manage and account for the operation of the HKP with effect from 1 August 1995. The POTF was financed by an initial capital injection of \$2,101 million from the Government and a shareholder loan of \$900.4 million from the Capital Investment Fund (Note 1). The loan was fully repaid in 2005.

1.4 As a trading fund, the HKP can retain the revenue generated from its business to cover the cost of service provision on a self-financing basis. According to the Trading Funds Ordinance, the general manager of a trading fund is required to manage the trading fund with the objectives of:

Note 1: *On 1 April 1990, the Legislative Council established the Capital Investment Fund by Resolution for the purpose of financing investments in the Mass Transit Railway Corporation (which became MTR Corporation Limited on 30 June 2000), the Kowloon-Canton Railway Corporation, the Hong Kong Housing Authority, the New Hong Kong Tunnel Company Limited and such other bodies as the Finance Committee of the Legislative Council may specify.*

Introduction

- (a) providing an efficient and effective operation that meets an appropriate standard of service;
- (b) meeting expenses incurred in the provision of the service and financing liabilities of the trading fund out of the income of the trading fund; and
- (c) achieving a reasonable return, as determined by the Financial Secretary, on the fixed assets employed.

1.5 The Postmaster General is the General Manager of the POTF. A Framework Agreement, which governs the relationship between the Secretary for Commerce and Economic Development and the Postmaster General (as the head of the HKP and the General Manager of POTF), came into effect on 1 August 1995. The Framework Agreement sets out the responsibilities of the Secretary and the Postmaster General, and the aims, functions and objectives, services and organisation, and the financial planning and control of the HKP.

1.6 According to the Framework Agreement:

- (a) the Secretary for Commerce and Economic Development is responsible for, inter alia:
 - (i) formulating and reviewing Government's policies and aims for postal services (see para. 1.2); and
 - (ii) setting performance targets (Note 2) for the HKP in consultation with the Postmaster General; and

Note 2: *The HKP's performance targets can be found on the HKP website. Examples of the targets included "deliver locally posted letters to local addressees by the following working day" and "deliver inward airmail items within 2 working days after arrival in Hong Kong". In 2014-15, the HKP met all its performance targets.*

- (b) the Postmaster General is responsible to the Secretary for Commerce and Economic Development for, inter alia:
 - (i) managing and operating the business of the HKP and achieving the performance targets of the HKP; and
 - (ii) advising the Secretary for Commerce and Economic Development on policy, legislative and operational matters relating to the business of the HKP.

Staff strength

1.7 The HKP is organised into three functional branches and a number of supporting units. An organisation chart of the HKP is at Appendix A. As at 31 March 2015, the 7,032 staff of the HKP comprised 5,090 civil servants (72%) and 1,942 non-civil-service contract (NCSC) staff (28%) (Note 3).

Postal facilities

1.8 As at 31 March 2015, the HKP's main postal facilities for providing postal services included:

- (a) two mail processing centres (the Central Mail Centre (CMC) at Kowloon Bay and the Air Mail Centre (AMC) at Chek Lap Kok), one Bulk Air Mail Centre at Tsuen Wan and one Surface Mail Centre at Tuen Mun;
- (b) 124 post offices (including the General Post Office (GPO) at Central) and three mobile post offices;

Note 3: *NCSC staff included full-time staff (remunerated on a monthly basis) and part-time staff (remunerated on a daily-rate basis or an hourly-rate basis). According to the HKP, NCSC staff are employed mainly: (a) to meet service needs that require staff to work less than the conditioned hours required of civil servants; (b) to meet service needs that are subject to market fluctuation; and (c) to tap the expertise in the market that is not readily available in the civil service.*

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- (c) 28 delivery offices (DOs) for delivering mail;
- (d) some 1,100 street posting boxes;
- (e) some 1,600 second pouch boxes for temporary storage of mail before delivery by postmen; and
- (f) a fleet of some 270 departmental vehicles.

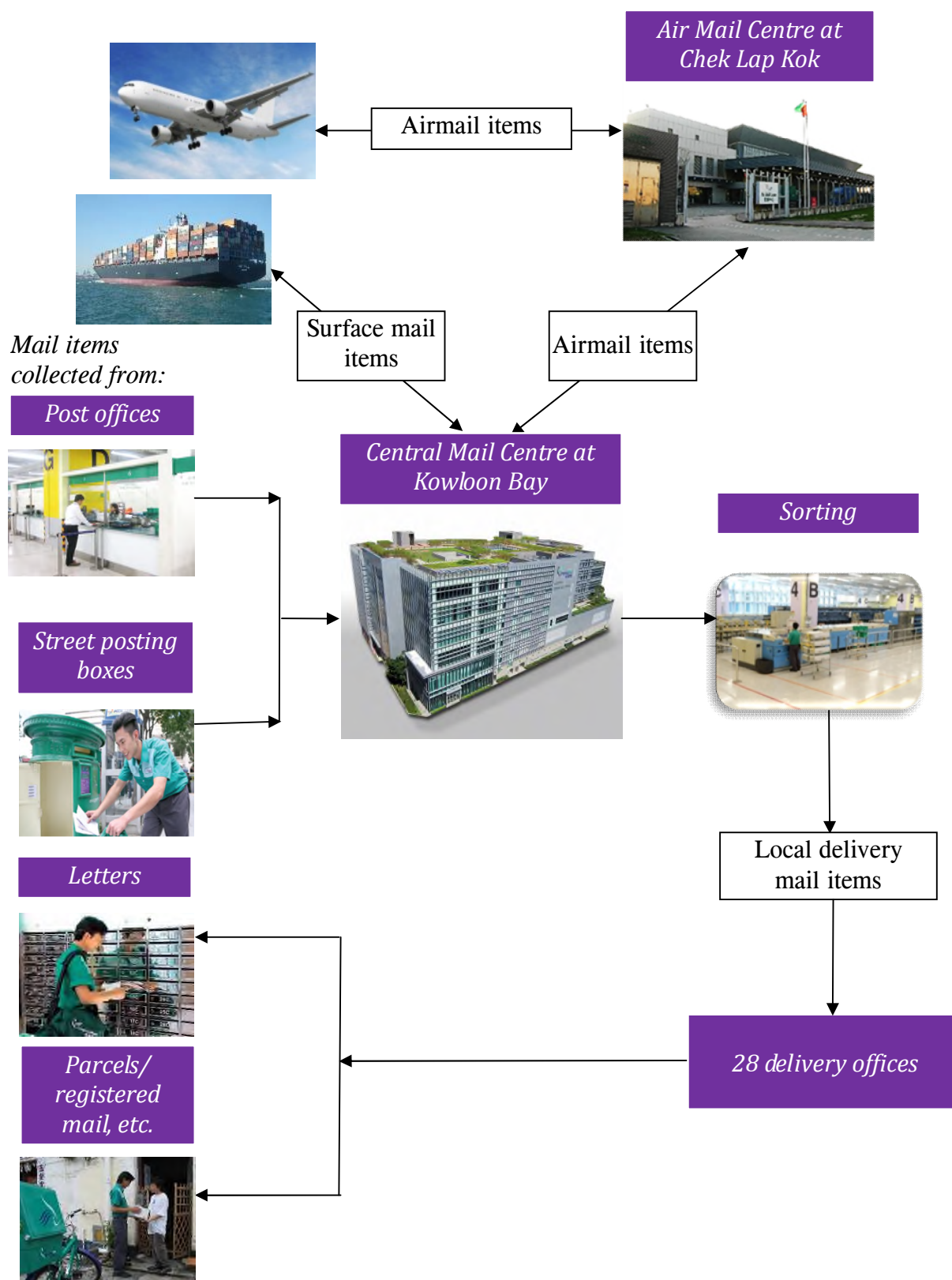
Overview of mail processing and delivery

1.9 In general, mail collected from post offices and street post boxes is centralised at the CMC for sorting either mechanically or manually. After sorting, local mail is sent to the 28 DOs for delivery by postmen whereas international mail is sent to the respective centres (e.g. airmail items to the AMC) for delivery to destinations outside Hong Kong. Inward mail is sorted at the CMC for local delivery (Note 4). Figure 1 shows a general overview of the mail flow.

Note 4: *The HKP receives from, and pays to, other postal administrations terminal dues and charges for the delivery of inward mail and processing of outward mail respectively.*

Figure 1

General overview of mail processing and delivery



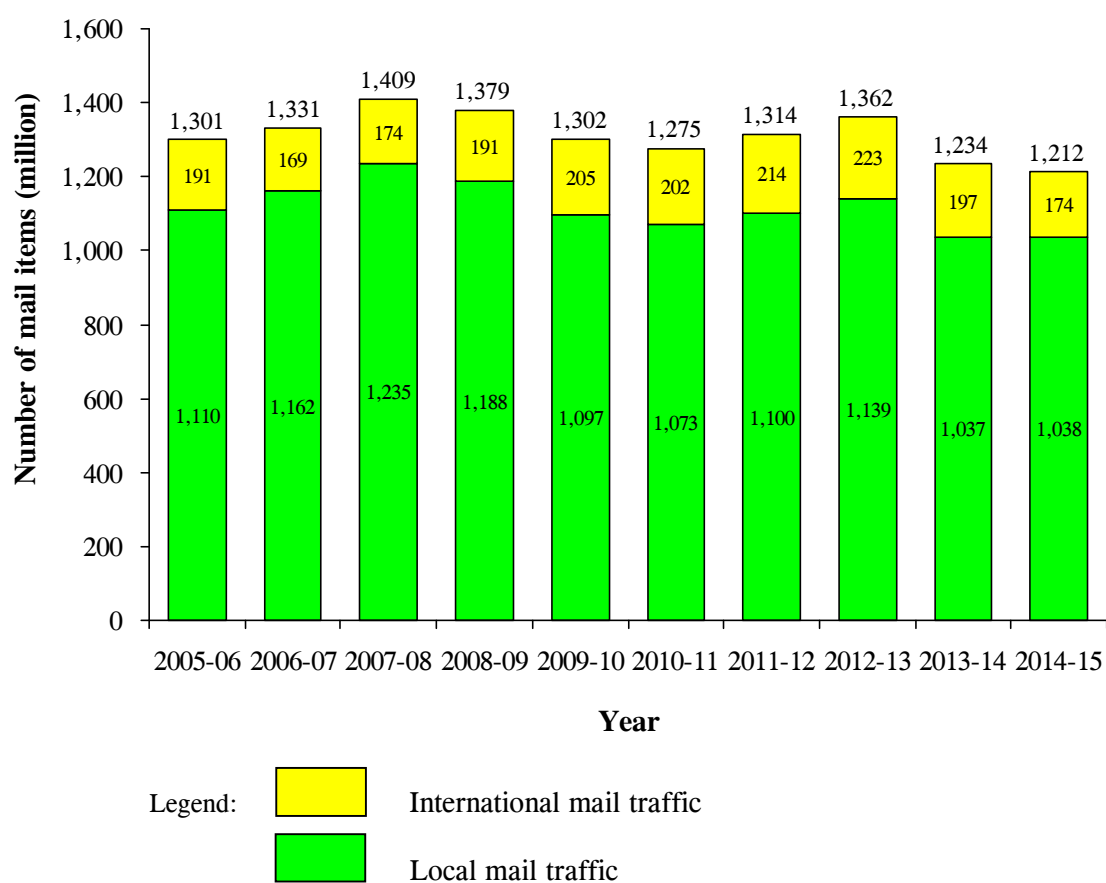
Source: Audit analysis of HKP records

Mail traffic of HKP

1.10 In 2014-15, the HKP handled 1,212 million mail items comprising 1,038 million (86%) local mail items and 174 million (14%) international mail items. The mail traffic for the period 2005-06 to 2014-15 is shown in Figure 2.

Figure 2

**HKP's mail traffic
(2005-06 to 2014-15)**



Source: HKP records

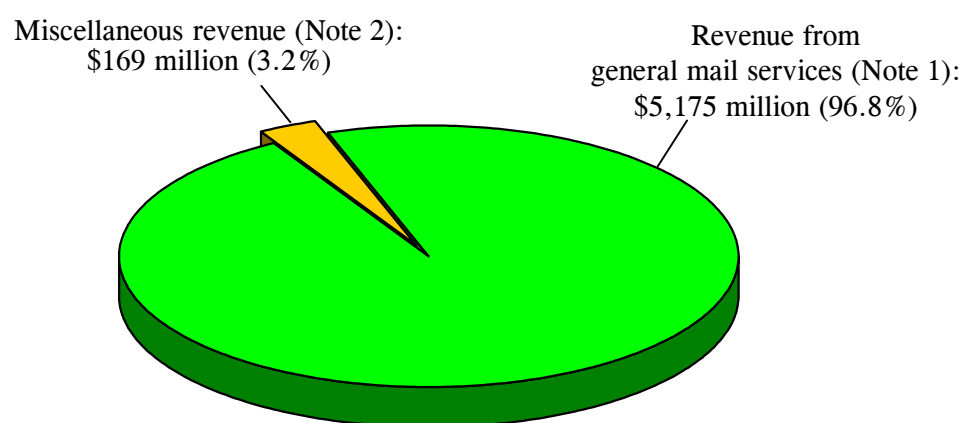
Turnover and operating costs

1.11 Figure 3 shows the details of the turnover and operating costs of the HKP for 2014-15.

Figure 3

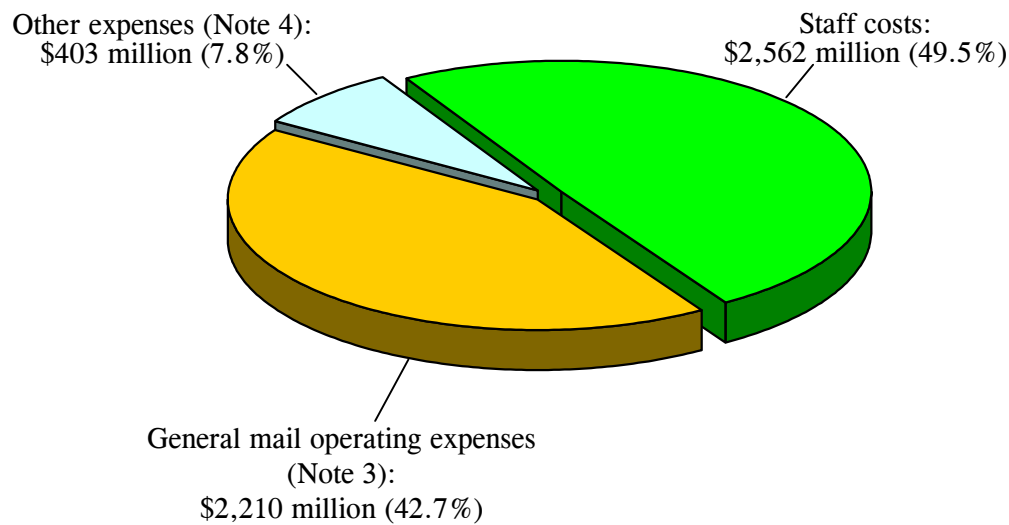
**Turnover and operating costs of HKP
(2014-15)**

Turnover: \$5,344 million



Introduction

Operating costs: \$5,175 million



Source: HKP records

Note 1: Revenue from general mail services includes mainly revenue from local mail and international mail, recoveries from other postal administrations for the provision of processing and delivery services for mail (e.g. letters and parcels) to Hong Kong and philately revenue.

Note 2: Miscellaneous revenue includes, for example, income from PayThruPost (for settlement of government and other bills) and post office box rental service.

Note 3: General mail operating expenses include: (a) terminal dues which are levies charged on the HKP by other postal administrations for mail from Hong Kong; (b) conveyance costs which are mainly payments for airfreight services and sea/land transportation for the conveyance of outward mail items to destinations outside Hong Kong; and (c) other operating expenses such as electricity and water charges.

Note 4: Other expenses include rental and management charges, depreciation and amortisation, and administration overheads.

Profits and losses

1.12 The HKP recorded operating loss in 8 of the last 20 years (i.e. from the inception of the POTF in 1995-96 to 2014-15). Table 1 shows the financial results of HKP for the period 2010-11 to 2014-15:

- (a) the operating profits/losses; and
- (b) the profits after deduction of notional profits tax.

Table 1

**Profits and losses of HKP
(2010-11 to 2014-15)**

Item	2010-11	2011-12	2012-13	2013-14	2014-15
	(\$ million)				
Turnover (a)	4,721	5,014	5,176	5,249	5,344
Operating costs (b)	4,585	5,064	5,290	5,252	5,175
Operating profit/(loss) (c) = (a) – (b)	136	(50)	(114)	(3)	169
Other income (Note 1) (d)	89	134	126	140	106
Profit before tax (e) = (c) + (d)	225	84	12	137	275
Profits tax (notional) (Note 2) (f)	32	11	2	20	50
Profit for the year (g) = (e) – (f)	193	73	10	117	225

Source: HKP records

Note 1: Other income mainly consisted of interest income generated from placement with the Exchange Fund and from financial assets (such as held-to-maturity securities, structured notes and deposits) and bank deposits.

Note 2: The POTF has no tax liability under the Inland Revenue Ordinance (Cap. 112). However, the Government requires the POTF to pay to the General Revenue an amount in lieu of profits tax (i.e. notional profits tax) calculated on the basis of the provisions of the Inland Revenue Ordinance. Notional profits tax expense for the year comprises current tax and movements in deferred tax assets and liabilities.

Rate of return on fixed assets

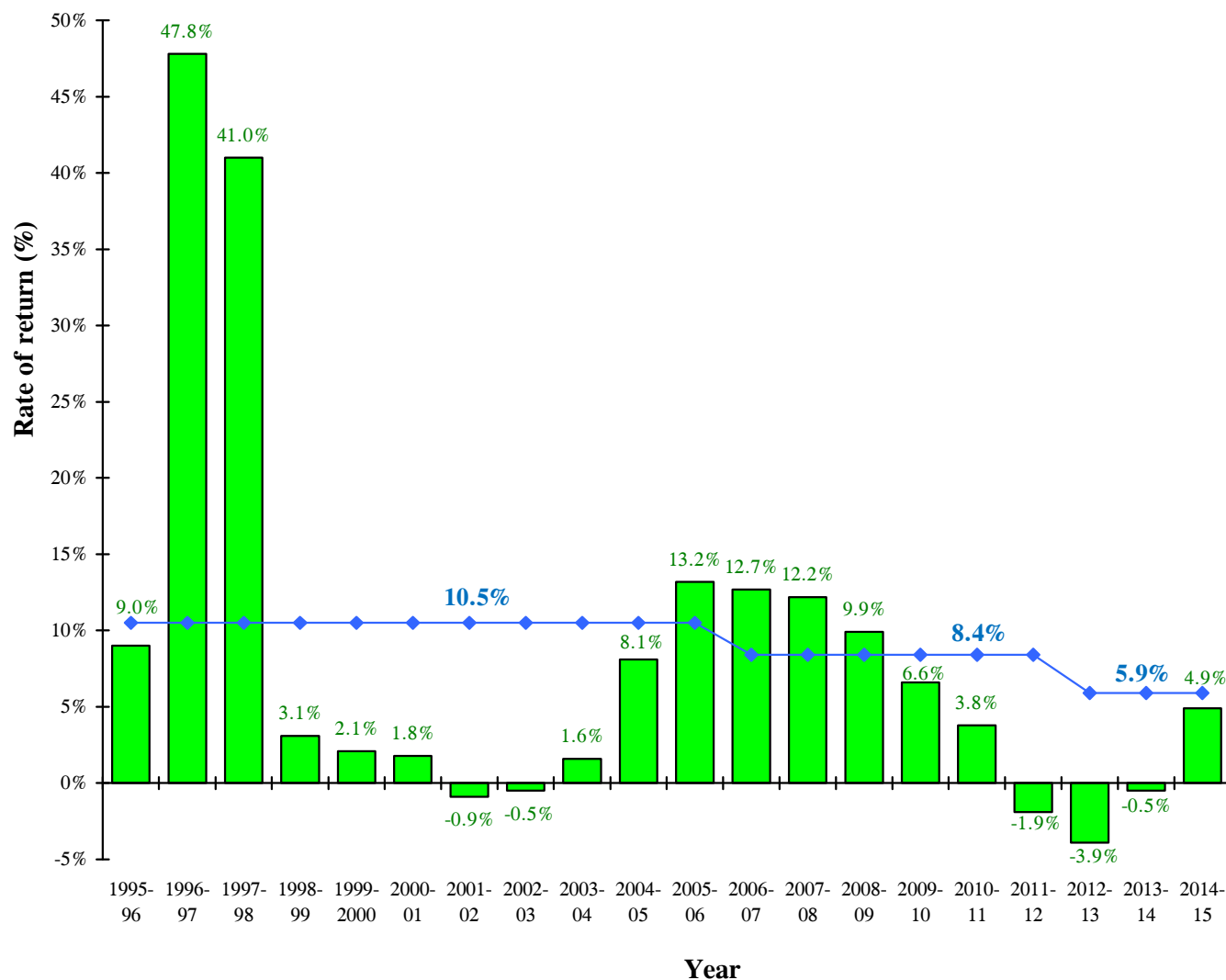
1.13 Under the Trading Funds Ordinance, the HKP is required to achieve an annual rate of return on fixed assets (Note 5) as determined by the Financial Secretary (see para. 1.4(c)). The rate of return is defined as the HKP's operating profit after tax (excluding other income) divided by its average net 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 1995-96 to 2005-06, the target rate of return on fixed assets was 10.5% and in the period 2006-07 to 2011-12, the rate was 8.4% (see para. 1.4(c)). Since 2012-13, the rate has been set at 5.9%.

1.14 Figure 4 shows the HKP's target and actual rates of return on fixed assets for the 20-year period 1995-96 to 2014-15. The HKP did not achieve the target rates of return in 14 years of the 20-year period.

Note 5: *Fixed assets include property (e.g. land and buildings), plant and equipment and intangible assets (e.g. computer software licenses).*

Figure 4

**HKP's target and actual rates of return on fixed assets
(1995-96 to 2014-15)**



Legend: Actual rate of return
 Target rate of return

Source: HKP records

Remarks: The upsurge of actual rates of return in 1996-97 and 1997-98 was mainly attributable to the better than expected sales of stamps in the period around the establishment of the Hong Kong Special Administrative Region on 1 July 1997.

Introduction

Audit review

1.15 In April 2015, the Audit Commission (Audit) commenced a review to examine the operation of the HKP. The review has focused on the following areas:

- (a) management of mail processing (PART 2);
- (b) management of post offices (PART 3);
- (c) management of postal vehicles (PART 4); and
- (d) management of CMC and GPO Building (PART 5).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Acknowledgement

1.16 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the HKP during the course of the audit review.

PART 2: MANAGEMENT OF MAIL PROCESSING

2.1 This PART examines the HKP's management of mail processing, focusing on the following issues:

- (a) underpayment of postage (paras. 2.4 to 2.16);
- (b) procurement of airfreight services (paras. 2.17 to 2.30);
- (c) control and administration of overtime (paras. 2.31 to 2.40);
- (d) overtime of Mail Distribution Division (paras. 2.41 to 2.56); and
- (e) monitoring of staff regularly working long overtime (paras. 2.57 to 2.67).

Background

2.2 In general, mail processing involves the following operations (see Figure 1 in para. 1.9):

- (a) locally posted mail is received at HKP's counters (e.g. post office counters) or collected from posting boxes, and inward mail is received at the AMC (for airmail) and the Surface Mail Centre (for surface mail); and
- (b) all collected mail will be centrally processed at the CMC. Mail with local addresses will be sent to the DOs for delivery by postmen serving the respective beats. Outward mail is delivered to destinations outside Hong Kong (e.g. airmail will be sent to the AMC for airfreight services).

Management of mail processing

2.3 In 2014-15, the HKP handled 1,212 million mail items, comprising 1,038 million (86%) local mail items and 174 million (14%) international mail items (see Appendix B). The mail items handled by the HKP include:

- (a) ***Letter mail services.*** These are ordinary mail and bulk mail posted for delivery within or outside Hong Kong (including packet of weight below 2 kilograms);
- (b) ***Parcel services.*** Parcel services for delivery within or outside Hong Kong are available. Parcels are sent by air or surface to some 230 countries/regions;
- (c) ***Speedpost service.*** Speedpost is the HKP's international courier service, and is the local brand name of the global Express Mail Service of the Universal Postal Union. Delivery is available to over 210 countries/regions;
- (d) ***Local CourierPost.*** This service caters for both individual and business needs for local express delivery of documents and packages. Items can be posted at all post offices throughout the territory;
- (e) ***Periodicals service.*** This service, which caters for information-oriented periodicals such as magazines, journals and research papers of general interests, provides low postage rates for both local mailing and mailing outside Hong Kong; and
- (f) ***Circular service.*** This service provides low postage rates for local distribution of unaddressed promotional materials (e.g. leaflets) to residential and commercial addresses by geographical areas. The HKP also offers a one-stop design and printing services.

Underpayment of postage

Measures to deter underpayment of postage

2.4 The HKP handles some 3 million mail items each day. Locally posted mail is posted either by handing in at HKP's counters or putting into posting boxes for collection by the HKP. Postage is based on the weight of the mail item. For mail handed in at HKP's counters, the amounts of the postage required are usually checked on the spot by HKP staff. Furthermore, according to the HKP, some 88% of locally posted mail items were prepaid or paid by permit/meter/postage label of which postage stamps are not required. Therefore, the risk of underpaid postage by these senders is lower. However, for mail placed directly into posting boxes, there is a risk that the senders may not have affixed postage stamps of the correct amount on the mail. The HKP relies very much on the senders, particularly individuals who use postage stamps, to pay correct postage when posting mail.

2.5 According to the HKP, it was mindful of the need to protect revenue, including the need to tackle underpayment of postage. The HKP took into account the risk of revenue loss as well as the practicability and administrative costs involved, with greater effort being placed on "Flats/Packets" (Note 6). As some 88% of the locally posted mail items were prepaid or paid by permit/meter/postage label, only 12% locally posted mail items were paid by stamps (about 400,000 per day). The majority of these were small letters and underpayment of postage could be detected by the Culler-Facer-Canceller, which culled mail items and cancelled postage stamps on letters, during processing for subsequent checking and stamp-cancelling by HKP staff. For small letters, it was more difficult to detect small differences in their weight without using scales. It was also more resource-intensive and the amount of underpaid postage recovered was comparatively small. Effort was therefore concentrated on checking large letters and packets (about 70,000 items per day) which were more susceptible to underpayment of postage and the amount of underpaid postage tended to be higher because of the higher postage involved. Some 1,100 mail items were detected to have insufficient postages every day (see para. 2.14).

Note 6: *A flat item is a larger size letter (measuring from 120 millimetres × 235 millimetres to 229 millimetres × 334 millimetres) with weight not exceeding 0.5 kilogram.*

Management of mail processing

2.6 The HKP has the following measures in place to prevent or detect underpayment of postage:

- (a) incorporating security features on postage stamps and mail labels to prevent counterfeit;
- (b) educating and reminding the public to pay correct postage;
- (c) testing the scales used in post offices on a weekly basis;
- (d) conducting checks on mail items at post offices and at mail processing centres (e.g. AMC and CMC) on a sample basis; and
- (e) putting in place a surcharge mechanism to recover the deficiency in postage plus a surcharge or handling fee (Note 7).

Audit conducted three different tests to assess the effectiveness of the HKP's measures in preventing or detecting underpayment of postage (see paras. 2.7 to 2.13).

Mail items with insufficient postage paid by postage stamp not always detected

2.7 Each day when local and international mail items (letters and packets) posted at posting boxes on the streets (street posting boxes) and posting boxes located at post offices (post office posting boxes) are collected for central processing at the CMC, the CMC's frontline staff and Senior Postal Officers conduct snap checks and superior checks (hereinafter collectively referred to as control checks) respectively to detect underpaid postage by weighing the mail items. For the frontline staff, the HKP's Departmental Rules do not specify how many mail items they need to check. For the Senior Postal Officers, they need to check 70 mail items. The Rules do not specify how the frontline staff and the Senior Postal Officers should select mail items for their checks. The CMC only maintains records on the mail items that were found underpaid. It does not keep records on how many mail items were selected for control checks.

Note 7: *Under Regulation 9 of the Post Office Regulations, a surcharge equivalent to double the postage deficiency is payable for local mail, and a fee of \$4 in addition to the postage deficiency is payable for mail sent from a place outside Hong Kong.*

2.8 After undergoing the control checks and mail sorting at the CMC, local mail items are despatched to DOs for local delivery while airmail items are forwarded to the AMC for delivery outside Hong Kong (see Figure 1 in para. 1.9).

2.9 In mid-June to mid-July 2015, Audit sent out four rounds of test mail comprising 13 local letters with no stamps and 37 local letters with insufficient postage stamps to 16 addressees (five on Hong Kong Island, five in Kowloon and six in the New Territories). The purpose of the test mail was to ascertain whether letters with no or insufficient postage could pass through the HKP's detection mechanism without being intercepted. Of these 50 test letters (Note 8):

- (a) 43 (86%) test letters (including 12 of the 13 test letters without postage stamps) successfully passed through the detection mechanism and were delivered to the addressees without being surcharged; and
- (b) 7 (14%) test letters were intercepted by the HKP and were surcharged.

Underpayment of postage detected by Audit's weighing tests

2.10 Audit conducted two weighing tests (one risk-based and the other random-based) to determine the weight of mail items vis-à-vis the postage paid at the CMC.

2.11 ***Risk-based weighing test.*** To ascertain the effectiveness of the HKP's sample checks of mail items, on 17 July 2015, Audit conducted a risk-based weighing test by selecting:

- (a) 441 mail items that in appearance did not have sufficient postage, before the mail items had been subjected to the CMC's control checks; and
- (b) 105 mail items that in appearance did not have sufficient postage, after the mail items had been subjected to the CMC's control checks.

The results of Audit's risk-based weighing test of these 546 (441 + 105) mail items are shown in Table 2.

Note 8: *The postage required for delivery of the 50 local letters totalled \$145.6 and the amounts underpaid totalled \$64.1, representing 44% of the postage required.*

Table 2

Risk-based weighing test conducted by Audit at CMC

Letter			Packet		
No. of items tested	No. of items underpaid	Amount underpaid (\$)	No. of items tested	No. of items underpaid	Amount underpaid (\$)
Before CMC control checks					
196	108 (55.1%)	230.1 (42.2% of correct postage of 108 items)	245	122 (49.8%)	189.9 (37.2% of correct postage of 122 items)
After CMC control checks					
64	31 (48.4%)	34.9 (36.7% of correct postage of 31 items)	41	2 (4.9%)	5.0 (33.6% of correct postage of 2 items)

Source: Audit testing on 17 July 2015

2.12 As shown in Table 2, Audit found that for 263 (108+122+31+2) mail items (48.2% of 546) postage were underpaid. The total underpayment was \$459.9 representing 39.4% of the correct postage required for the 263 underpaid items. Even after the CMC's control checks, 31 letters (48.4% of 64) and 2 packets (4.9% of 41) were found by Audit to have underpaid their postage.

2.13 **Random-based weighing test.** On 29 July and 5 August 2015, Audit randomly selected 1,190 locally posted mail items (paid by stamps) collected from 11 street posting boxes and conducted random-based weighing test (the mail items had not been subjected to the CMC's control checks). Audit found 97 (8.2%) mail items underpaid. The correct postage required for these 97 items was \$333.1. The actual postage paid was \$233.9 and the postage underpaid was \$99.2. The amount of postage underpaid represented 29.8% of the correct postage required for the 97 underpaid items and 3.5% of the correct postage of \$2,798.9 for the 1,190 items.

2.14 Since June 2015, as part of the post-implementation review of the Integrated Postal Services System (Note 9), HKP has stepped up the extent of control checks of mail items at 28 DOs, the CMC and the AMC. In this regard, Audit noted that the number of underpaid items spotted at the CMC had substantially increased from some 1,100 per day (average for the period January to May 2015) to some 2,500 and 3,100 in June and July 2015 respectively.

Audit recommendations

2.15 **Audit has recommended that the Postmaster General should:**

- (a) **conduct a review on the HKP's measures in detecting mail items with underpaid postage;**
- (b) **in the light of the results of the review, enhance the HKP's control mechanism in detecting underpaid mail items, including:**
 - (i) **reminding frontline staff to be more vigilant in identifying underpaid mail items;**
 - (ii) **laying down requirement on the number of mail items that should be checked by the frontline staff;**
 - (iii) **maintaining statistics on the extent of underpayment of postage being spotted so as to determine whether the measures for detecting underpayment need to be enhanced; and**
 - (iv) **stepping up efforts in reminding the public to ensure that sufficient postage is affixed on mail items to avoid surcharge or possible mailing delay; and**
- (c) **consider taking stringent measures to prevent underpayment of postages (e.g. increasing the level of surcharge) should the situation deteriorate.**

Note 9: *Since September 2014, the HKP has implemented by phases the Integrated Postal Services System for automating counter operation and streamlining back-end support functions.*

Response from the Government

2.16 The Postmaster General agrees with the audit recommendations. She has said that the HKP:

- (a) has stepped up checking of mail items with a higher risk of underpayment of postage, supplemented by the issue of additional guidelines to supervisors and frontline staff;
- (b) has embarked on a review with the objective of enhancing control over underpaid mail items with proportionate resources. The review (targeted for completion by early 2016) will take into account practical considerations and the administrative costs involved when formulating appropriate measures to recover underpayment;
- (c) had enhanced public education on the need to pay sufficient postage and will keep up its effort in this regard; and
- (d) will keep the situation under review and consider the need for more stringent measures if the situation so warrants.

Procurement of airfreight services

2.17 The HKP needs airfreight services for mail delivery (Speedpost and airmail) to places outside Hong Kong. For 2014-15, expenditure on airfreight services amounted to \$754 million, or 97% of the HKP's total conveyance expenditure.

2.18 Since 2011-12, the HKP has conducted annual procurements of airfreight services for its Speedpost and airmail. Audit reviewed the HKP's 2014-15 tender exercise and found that there is room for improvement.

2014-15 tender exercise

2.19 In the 2014-15 tender exercise, successful tenderers were required to provide the services on a route-by-route basis for the delivery of Speedpost and airmail from Hong Kong to 134 Speedpost destinations and 153 airmail destinations for a period of 12 months commencing 1 October 2014.

2.20 The tender was closed in mid-June 2014 and 29 tenders were received for bidding one or more of the three services (Speedpost, priority airmail and lower priority airmail — Note 10). The tenders were evaluated by a Tender Assessment Panel comprising six HKP senior staff. The tenderers were required to fulfil the essential requirement on completion of the delivery process within a specified timeframe before they could proceed to the next round of assessment (i.e. ranking of tenderers per destination in respect of each day of the contract period). For priority airmail and lower priority airmail, successful tenderers were ranked according to the basic charges they offered (prices quoted on a per kilogram basis) with the lowest offer ranked the highest. For Speedpost, ranking of tenderers was based on the weighted-sum obtained from different ranking criteria (such as basic charge offered, latest time of posting (Note 11) and availability of track and trace information). Allotment of capacity to a contractor for a particular destination in a day would be based on the results of the ranking exercises. The estimated contract value for the 2014-15 tender exercise was \$824.7 million.

Need to provide accurate information to Central Tender Board for approval of tender

2.21 According to the Government's Stores and Procurement Regulations (SPRs), 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.

Note 10: *Lower priority airmail service is for bulk airmail items which are less time sensitive.*

Note 11: *The latest time of posting is determined with reference to the departure time of a flight from Hong Kong offered by each tenderer.*

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2.22 The HKP stated in the tender document that:

- (a) tenderers were required to submit audited accounts for the past three years, and projected profit and loss accounts and cash flow statements for the contract period;
- (b) 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
- (c) if a tenderer failed the financial vetting and the estimated value of the contract was over \$5 million, the HKP may require the selected tenderer to submit a deposit equivalent to 0.5% of the estimated contract value (Note 12).

2.23 Audit examined HKP's records and noted that HKP did not require the tenderers who failed the financial vetting and whose estimated contract value exceeded \$5 million to submit a contract deposit. The HKP considered that it would only pay service fees to a contractor after the contractor had satisfactorily provided the services, and the HKP could also seek services from other contractors if necessary.

Note 12: *According to the SPRs, as protection of the Government's interest, for non-works service contracts of a value exceeding \$5 million, contract deposit is normally required at about 5% of the contract value should the tenderers have failed the financial vetting or have not undergone any financial vetting; or at no more than 2% of the contract value for tenderers passing the financial vetting. In response to a query raised by the Financial Services and the Treasury Bureau on why a contract deposit of 2% was not required if the tenderers concerned had passed the financial vetting, the HKP explained that this aligned with the HKP's previous practice and was to strike a balance between protection of Government's interest and attractiveness of the tender.*

2.24 Audit further noted that when seeking the Central Tender Board's approval of the award of contracts (Note 13), the HKP informed the Board that:

- (a) the tenderers had been financially vetted and were considered financially capable of undertaking the contracts; and
- (b) as they had passed the financial vetting, no contract deposit was required.

Audit considers that the HKP needs to 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. The HKP also needs to justify the exception to the general rules on contract deposit to the satisfaction of the Board.

Need to properly allot mail items to contractors

2.25 According to the HKP's procedures, daily allotment of mail items to contractors for carrying out airfreight services should be made in accordance with the ranking schedules prepared by the HKP's External Affairs Division based on the results of the tender exercise. For priority airmail and lower priority airmail, price is a major factor in determining the ranking priority. For Speedpost, which is considered a premium service, price, journey time, latest time of posting and availability of track and trace information are more important.

2.26 Audit noted that the responsible Superintendent of Posts did not always follow the ranking schedules prepared by the External Affairs Division in the daily allotment exercise. In response to Audit's enquiry, the HKP explained in August 2015 that the actual utilisation of the conveyance capacity of the contractors is subject to operational and business needs and other considerations such as fluctuation in the mail volume and the arrival pattern of outward mail at the AMC. The major reasons for not following the recommended ranking schedules include:

Note 13: *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.*

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- (a) insufficient mail volume to fill the available capacity of the highest ranking flight at the flight's cut-off time;
- (b) the highest ranking flight was delayed or cancelled;
- (c) no available containers for the highest ranking flight; and
- (d) there was heavy traffic on hand requiring prompt loading.

2.27 According to the HKP's Departmental Rules concerning conveyance services, guidelines have been laid down for dealing with circumstances such as flight delay, flight cancellation, taking alternative routing, and for procurement of additional air cargo allotment. For example, if there is a need for procuring additional air cargo allotment during normal office hours, the endorsement by authorised officers of the External Affairs Division is required. If the intended procurement is after normal office hours, the Superintendent of Posts in charge of conveyance or his supervisors can procure additional air cargo allotment.

2.28 Upon Audit enquiry, the HKP confirmed that there was no exceptional reporting function in the conveyance computer system to capture instances where the actual allotment did not follow the intended allotment sequence. Notwithstanding this, the HKP said that supervisors and managers at the AMC would refer to the "Weekly Report for Flight Allotment" to spot exceptions in allotments when performing supervisory and management checking. Audit considers that such checking was inadequate as the managerial staff at the AMC only checked two destinations in one or two days per week. The HKP said that it would enhance its computer system such that exception reports could be generated for comparing the actual allotment against the ranking schedule as set out by the External Affairs Division and such enhanced function would be available for use soon.

Audit recommendations

2.29 **Audit has *recommended* that the Postmaster General should:**

- (a) **review the HKP's practice of waiving contract deposits from contractors of airfreight services who failed the financial vetting and whose estimated contract value exceeded \$5 million;**
- (b) **provide accurate information to the Central Tender Board on the results of the HKP's financial vetting and the justifications for waiving the contract deposits;**
- (c) **enhance the computer system by adding an exception reporting function to highlight instances where the actual allotment to contractors for airfreight services did not follow the intended allotment sequence to facilitate supervisory/managerial review; and**
- (d) **step up the monitoring of the allotment process.**

Response from the Government

2.30 The Postmaster General agrees with the audit recommendations. She has said that:

- (a) the HKP concurs that there is room for improvement in its previous reporting to the Central Tender Board on the outcome of the tender assessments in the 2014-15 Air Tender Exercise. Although there were sound justifications for waiving the contract deposit, the HKP should have explained to the Board more clearly the basis of the Tender Assessment Panel's decisions to regard the tenderers concerned as having passed the financial vetting and the reasons for not requiring the successful tenderers concerned to furnish a contract deposit. The HKP will improve in this regard when it carries out the tender evaluation for the tenders received for the 2015-16 Air Tender Exercise and in its subsequent reporting to the Central Tender Board; and

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- (b) system development is now underway to add an exception reporting function to the HKP's conveyance system to facilitate supervisory/managerial review. The HKP expects the new function to be available for use by mid-2016. Meanwhile, it has stepped up monitoring of the allotment process by introducing daily supervisory checks for six major destinations to supplement the weekly managerial checks.

Control and administration of overtime

2.31 The principal activities of the HKP are to provide general postal and ancillary services, which are by nature labour-intensive and demand-led. The actual manpower requirement varies, depending on the mail volume, the mix of mail types (e.g. mechanically or manually sorted traffic, priority or non-priority traffic, etc.) and the time of mail acceptance against the latest time of posting for the respective mail types. To cope with the workload which cannot be precisely forecasted, the HKP maintains a permanent staff establishment that could handle the normal workload. This is supplemented by a combination of monthly/daily/hourly-rated NCSC staff and overtime work to cope with the peaks and troughs of postal traffic while meeting the HKP's performance pledges for different mail services.

General principles governing overtime work

2.32 The Civil Service Regulations (CSRs) published by the Civil Service Bureau (CSB) have laid down strict controls on overtime work. The general principles governing overtime work by civil servants set out in the CSRs are:

- (a) overtime is work undertaken over and beyond an officer's conditioned hours, which may be undertaken only when it is unavoidable;
- (b) overtime must be authorised in advance and should be strictly controlled, properly supervised, and kept to the absolute minimum compatible with operational requirements. Regular or excessive overtime is not in the interest of staff or the service and should be avoided as far as possible and strictly limited;
- (c) government departments should set a ceiling for the overtime hours, as follows:

- (i) normally at 60 hours in a month which an officer may undertake or at a lower level if the departments see fit; and
- (ii) normally at 180 uncompensated overtime hours accumulated at any one time by an officer or at a lower level if the departments see fit;
- (d) overtime work performed should normally be compensated by time-off in lieu (TOIL). Granting of time-off is subject to exigencies of service; and
- (e) 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.

2.33 The CSRs are supplemented by CSB Circular No. 18/2000 “Guidelines on Control and Administration of Overtime”, which sets out a number of measures to strengthen the administration and control over the use of overtime. In particular, it states 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 CSRs.

Overview of HKP’s overtime work

2.34 ***Compensation of overtime hours.*** As at 31 March 2015, the HKP had a strength of some 7,000 staff (see para. 1.7). Overtime hours worked by HKP staff had long been mainly compensated by OTA rather than compensated by TOIL (Note 14). For 2014-15, the number of overtime hours was 1,362,941, of which 1,115,234 hours (81.8%) were compensated by OTA (\$179 million).

Note 14: *For example, for the years 2012-13 to 2014-15 the ratio of overtime hours compensated by TOIL to that by OTA was about 1:5.*

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2.35 **OTA as percentage of salary.** For many civil servants working in the HKP (Note 15), OTA was equivalent to a significant percentage of their salaries. Table 3 shows that in 2014-15 OTA was paid to 4,244 civil servants (representing 83% of the 5,090 civil servants in the HKP). For these civil servants, OTA represented, on average, 15.4% of their salaries. For 14.4% of the 4,244 civil servants, OTA received was more than 30% of their salaries.

Table 3
OTA as percentages of salaries of civil servants
(2014-15)

OTA as percentage of salaries	Number of civil servants received OTA	
≤ 10 %	1,847	(43.6 %)
> 10 % and ≤ 20 %	1,084	(25.5 %)
> 20 % and ≤ 30 %	702	(16.5 %)
> 30 % and ≤ 40 %	382	(9.0 %)
> 40 % and ≤ 60 %	208	(4.9 %)
> 60 %	21	(0.5 %)
Total	4,244	(100 %)

Source: Audit analysis of HKP records

Note 15: *According to CSB Circular No. 2/2001 “Employment of NCSC Staff”, NCSC staff are not entitled to OTA. The Circular also states that overtime work done by NCSC staff in excess of the normal hours of work should be compensated by TOIL.*

2.36 *Uncompensated overtime balance.* The overall uncompensated overtime balance as at 31 March 2015 remained high at a level of 231,000 hours, or on average some 40 hours per staff (civil servants and NCSC staff) who had worked overtime.

Main causes of overtime work

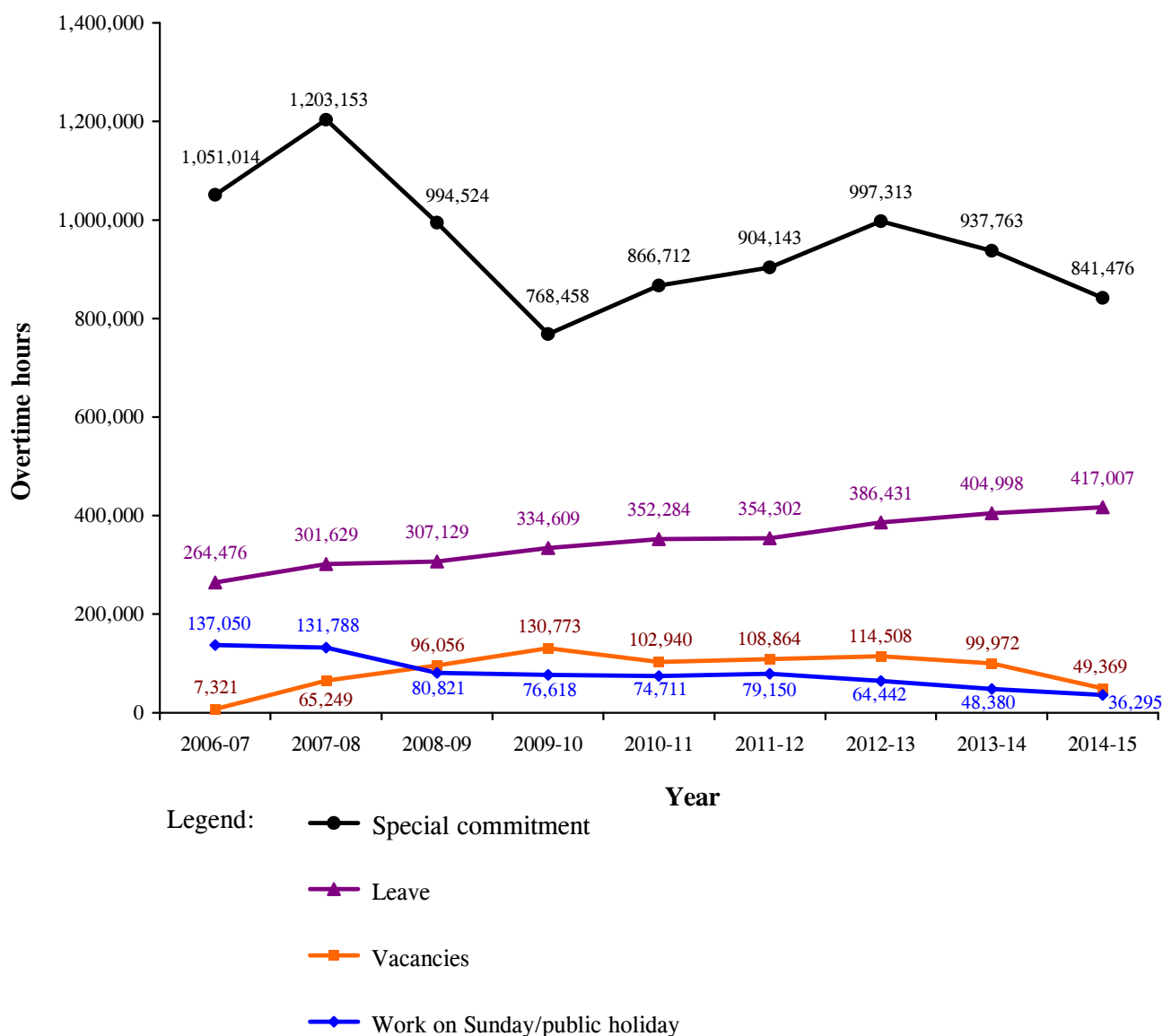
2.37 According to the HKP, overtime is mainly caused by special commitment (e.g. exceptionally heavy mail arrivals which are outside the handling capacity of scheduled staff) and leave taken by staff exceeding that covered by leave reserve staff (Note 16) (see Figure 5).

Note 16: *The HKP informed Audit in October 2015 that:*

- (a) *changes in mail traffic are often difficult to predict and are beyond HKP's control. Manpower need may arise at short notice and additional manpower is required urgently; and*
- (b) *the HKP faces institutional manpower shortage at specific stages of recruitment/promotion exercises. The waiting list from the last round of recruitment/promotion exercise will cease to be valid once the HKP embarks on a fresh round of recruitment or convenes a fresh round of promotion exercise. Pending the completion of the recruitment/promotion exercises, which normally takes six to nine months, the HKP has to cover any net vacancies arising during this period by various means (e.g. undertaking overtime work by its regular staff, redeploying leave reserve staff to fill functional vacancies, etc.).*

Figure 5

Overtime hours arising from four causes (2006-07 to 2014-15)



Source: HKP records

Remarks : Overtime hours for the four causes accounted for 98% of the total overtime hours. According to the HKP, the relatively high number of overtime hours in 2006-07 to 2008-09, 2012-13 and 2013-14 was due to exceptionally high mail volume arising from events such as elections. A substantial amount of overtime work was also incurred in the third quarter of 2013-14 for handling a sudden upsurge of dangerous goods detected in airmail items.

2.38 The HKP informed Audit in September and October 2015 that:

- (a) overtime work was undertaken when the regular duty hours of HKP's staff were unable to cope with fluctuations in the workload and when the available manpower fell short of the normal level due to staff shortage arising from vacancies and absence;
- (b) the HKP's manpower requirement on a day-to-day basis was directly related to the quantity and characteristics of different categories of mail as broadly defined by the delivery standard, dimensions and weight. In this connection:
 - (i) the mix of mail types had changed in recent years, with a rise in packets and a corresponding drop in letters;
 - (ii) the average unit weight of ordinary local mail and inward mail up to 2 kilograms had continued to increase;
 - (iii) mail items (including ordinary mail, bulk airmail, parcels and Speedpost items) had increased in bulkiness;
 - (iv) to safeguard aviation safety, the HKP was required to take appropriate measures to detect dangerous goods (such as lithium batteries) before uplift. For items detected to contain dangerous goods, the HKP had to incur additional resources in arranging their return to the mailers; and
 - (v) there was an increase in delivery points (Note 17) as a result of urban development even though the overall mail volume was decreasing; and

Note 17: *A delivery point is a single mailbox or other place at which mail is delivered. It differs from a street address in that each address may have several delivery points, such as apartments and offices.*

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- (c) the HKP had exerted much effort to clear the large accumulated uncompensated TOIL balance, which had been steadily reduced to some 231,000 hours as at 31 March 2015, representing a reduction of 12% when compared to the balance as at 31 March 2014, or 34% when compared to the balance as at 31 March 2012. The uncompensated TOIL balance was further reduced to 217,000 hours as at end of September 2015.

Audit recommendations

2.39 **Audit has *recommended* that the Postmaster General should:**

- (a) **monitor closely the overtime work by HKP staff to ensure compliance with the relevant CSRs and CSB circular, and ensure that senior management's endorsement is obtained in exceptional circumstances where non-compliance is justified; and**
- (b) **continue monitoring closely the uncompensated overtime hours balance with a view to reducing it to an acceptable level.**

Response from the Government

2.40 The Postmaster General agrees with the audit recommendations. She has said that the HKP:

- (a) has made persistent effort to reduce overtime work at source;
- (b) has strengthened the departmental control mechanism to ensure compliance with the service-wide and departmental requirements in the administration of overtime work. The eDuty List System and the Attendance Management System have been enhanced so that updated information on the overtime hours of individual staff is available to frontline supervisors/managers in a timely manner to facilitate proper allocation of overtime work. Heads of operational divisions conduct monthly reviews to ensure that the incurrence of overtime work is fully justified; and

- (c) will also keep up its effort in working down the overall balance of uncompensated overtime hours by a combination of measures, including reducing overtime work at source, maintaining a dedicated team to clear the uncompensated balance and closely monitoring progress.

Overtime of Mail Distribution Division

2.41 The Mail Distribution Division (MDD) of the Postal Services Branch is mainly responsible for the delivery of mail items to different delivery points in Hong Kong. As at 31 March 2015, the MDD had 2,670 civil servants including 2,254 (84%) Postman grade staff. Under the MDD, there are 28 delivery offices (DOs) (13 on the Hong Kong Island and outlying islands, 5 in Kowloon and 10 in the New Territories). Each DO oversees a number of delivery beats (ranging from 2 to 155). Each delivery beat is manned by one delivery postman (DPm). As at 31 March 2015, there were 1,756 delivery beats covering all the delivery points in Hong Kong.

2.42 In 2014-15, overtime hours worked by staff of the MDD and compensated by OTA were 534,790 hours, representing 48% of that of all staff of the HKP. The main reasons for overtime work by the MDD were temporary shortage of staff as a result of leave (sick leave or vacation leave) (Note 18) or absence (e.g. due to beat training) (Note 19) and increase in work pressure, which accounted for 56% and 37% of the overtime hours respectively.

Note 18: *According to the HKP, sick leave and vacation leave of DPm is normally covered by staff in the Leave Reserve pool of the relevant DO. However, when a delivery beat is left vacant due to staff promotion or retirement and no replacement is available (see Note 16 to para. 2.37), a postman from the Leave Reserve pool will be temporarily deployed to take up the beat, thus leaving insufficient Leave Reserve staff to cover the absence of postmen and overtime work will have to be incurred.*

Note 19: *According to the HKP, it provides intensive beat training for staff who newly take up mail delivery duties to familiarise them with the uniqueness of individual delivery beats. The duration of training depends on the locality of individual beats.*

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2.43 As the overtime hours worked by the MDD staff in 2014-15 represented 48% of the overtime hours worked by all staff of the HKP, Audit examined the overtime work of the MDD in detail.

Assessment of overtime of delivery postmen

2.44 **Standard workload.** For every delivery beat, the HKP has devised standard workload (in terms of different mail volume for each type of mail items such as letter, packet and registered mail) of the DPm and the standard time for processing and delivery of different types of mail items, taking into account the following:

- (a) **Indoor preparation time.** This is the time required to segregate and sequence mail items before delivery, prepare the delivery pouch, handle dead letters, redirected and undeliverable mail items, etc.;
- (b) **Journey time.** This is the time required to reach the first delivery point from the DO plus the time required for returning to the DO from the last delivery point; and
- (c) **Outdoor delivery time.** This is the time required to travel from one delivery point to another along the delivery beat and deliver the mail items.

2.45 **Assessment of daily workload.** The actual workload of a DPm in a day and the time required to deliver the mail items in a delivery beat is computed as follows:

- (a) for machine-sorted items (e.g. standard sized letters), the mail volume data is captured by the Mechanised Letter Sorting System in the CMC;
- (b) for manual-sorted items (e.g. packets), the mail volume is counted by the sorters in the DO and reported to the Postal Inspector (i.e. Senior Postal Officer) who oversees the delivery beat; and
- (c) for other items that require proof of delivery (e.g. registered mail), the mail volume is captured by the HKP's Track and Trace System.

2.46 **Computation of overtime.** The data on mail volume mentioned in paragraph 2.45(a) to (c) above will be captured by the Mail Delivery Management System (Note 20). Where necessary, the Postal Inspector makes minor adjustments to the DPm's workload in the System after considering factors such as the characteristics of the delivery beat and the mail composition of that day. The System compares the standard workload of the beat (see para. 2.44) against the actual workload. If the time required to handle the actual workload exceeds the time required for the standard workload, overtime is granted to the DPm for handling the excess workload. As such, the amount of OTA and/or TOIL are pre-determined with reference to the daily workload instead of the actual time taken by the DPm to complete the delivery work. Table 4 is an example of overtime computation.

Table 4
Computation of overtime for a DPm
manning Delivery Beat A
(one day in June 2015)

Mail	Standard workload (unit) (a)	Actual workload (unit) (b)	Difference (unit) (c) = (b) – (a)	Standard time (minute) (d)	Overtime (minute) (e) = (d) × (c)
Letter/flat (Note)	2,812	2,462	(350)	0.06	(21)
Packet	5	33	28	1.5	42
Registered mail/ Speedpost item	11	17	6	2	12
Total overtime before adjustment					33
Overtime rounded down by the Postal Inspector					(3)
Total overtime granted					30

Source: Audit analysis of HKP records

Note: For workload assessment purpose, one flat item is counted as 1.5 letters.

Note 20: *The Mail Delivery Management System was implemented in 2005 to assist the Postal Inspectors in workload assessment. It provides statistical data on letters, flat items, registered mail, etc., for beat revision, strategic planning and new business initiative.*

Need to review the standard time

2.47 The HKP conducted two major exercises in 1999 and 2002 to establish and review the workload standard of its DPm. After the introduction of the Vertical Postman Preparation Fitting in 2001 (Note 21 — see Photograph 1), a time study was conducted in 2006, covering 132 beats, to evaluate the standard indoor preparation rate. Standard time for processing and delivering different mail items was developed and adopted in March 2008 after agreement with the HKP's staff unions.

Photograph 1

Vertical Postman Preparation Fitting



Source: Photograph taken by Audit on 16 June 2015

Note 21: *The Vertical Postman Preparation Fitting was introduced in 2001 to facilitate the DPm in mail delivery sequencing in accordance with the pre-determined route of a delivery beat. It is configured according to delivery route and mail volume of each beat. According to the HKP, benefits of the Vertical Postman Preparation Fitting include increased flexibility to meet mail volume fluctuation and changes of delivery points, improved sorting accuracy, and enhanced visibility on workload assessment and quality control.*

2.48 Audit noted that there had been no comprehensive review on the standard time for processing and delivering different mail items since March 2008. Taking into account factors such as changes in mail mix in recent years (Note 22), the learning effect as a result of accumulation of experience with a delivery beat (Note 23), and the changes in age profile of the HKP's DPm (Note 24), the HKP needs to carry out a comprehensive review of the standard time for processing and delivering different types of mail items.

Delay in carrying out beat revisions

2.49 Regular beat revisions (Note 25) are carried out to assess the workload of each beat to take into account factors such as new property developments, and changes in economic condition, mail mix and population. For this purpose, in the 1980s, HKP established a Beat Survey Team (BST) (Note 26) under the Productivity Services Section of the Postal Services Branch. The objectives of a beat revision exercise include:

- (a) re-assessing the workload standard of all the beats being reviewed;
- (b) evening out the workload of the delivery beats;
- (c) maintaining a delivery boundary which will improve both delivery and sorting efficiency; and

Note 22: *Audit noted from the HKP's records that, as compared to 2010-11, the average volumetric increase and weight increase per item for local mail and inward ordinary mail in 2014-15 were 12% and 16% respectively.*

Note 23: *According to the HKP, local experience of each beat is very important to a DPm to maintain efficiency and reliability of service. Therefore, save for reasons such as retirement, promotion and request for transfer, a DPm will remain in his delivery beat for a long period of time.*

Note 24: *As at August 2015, the average age of DPm was over 45.*

Note 25: *A beat revision exercise comprises five steps: (a) beat survey; (b) mail traffic analysis; (c) beat design and formation; (d) consultation with supervisors and staff; and (e) finalisation and implementation.*

Note 26: *The BST comprises 12 staff, namely 2 Senior Postal Inspectors (at the rank of Superintendent of Posts) and 10 Postal Inspectors (at the rank of Senior Postal Officer).*

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- (d) aligning staff resources used in mail delivery with the latest mail traffic.

2.50 According to the guidelines of the HKP, a beat revision exercise for every DO should be carried out every three years. However, Audit noted that there were substantial delays in the beat revision exercises. Audit analysis of the latest beat revision dates of 1,706 beats (provided by the HKP in August 2015) revealed that 1,159 beats (68%) were overdue for beat revision (see Table 5).

Table 5
Overdue position of beat revisions
(August 2015)

Overdue period	Number of beats
< 1 year	235 (21%)
1 to < 2 years	316 (27%)
2 to < 3 years	489 (42%)
3 years or more (Note)	119 (10%)
Total	1,159 (100%)

Source: Audit analysis of HKP records

Note: The longest overdue period was 3.4 years.

2.51 In response to Audit's enquiry, the HKP informed Audit in September 2015 that:

- (a) in order to maintain flexibility and address operational needs promptly without waiting until the next round of beat revision, minor patching to a delivery beat was conducted by the DO at the local level;
- (b) although full-scale beat revision exercises had not been completed for a number of DOs, the BST had assisted seven DOs in the conduct of patching work since 2011;

- (c) due to operational need, the BST was deployed to conduct workload assessment for the three Speedpost Centres and three Speedpost Hubs (which were not included in the original beat survey plan) in 2012 to 2014. The BST undertook workload assessment for these offices first as the magnitude of potential efficiency gain was larger;
- (d) during the period from March 2013 to June 2014, the BST had three Postal Inspector vacancies (out of ten Postal Inspector posts); and
- (e) the HKP planned to increase the establishment of the BST by five staff (one Superintendent of Posts and four Senior Postal Officers). Subject to the established mechanism for post creation and manpower availability, the HKP expected to clear the backlog and catch up with the three-year cycle by 2017.

Supervisory checks by HKP Headquarters

2.52 Supervisory checks on overtime of a DPm are conducted by individual DO and HKP Headquarters. At DO level, checks are carried out to ensure that the DPm delivers mail according to the required delivery time based on workload assessment. Checks are also conducted by senior staff in DO by reviewing Postal Inspectors' Daily Log Sheet generated by the Mail Delivery Management System and counting mail items against the record in the log sheet. At HKP Headquarters level, the BST conducts supervisory checks on two DOs in each month (two beats per DO). The purpose of the checking is to collect data for beat revision or to conduct minor patching of a beat if deemed necessary. The BST reports to the HKP senior management on any irregularities found.

2.53 Audit considers that the supervisory checks by the BST is important because they were more independent than those conducted at DO level. However, the BST only carries out supervisory checks of 48 beats a year (i.e. 2 beats per DO \times 2 DOs per month \times 12 months) representing only 2.7% of the 1,756 beats in 2014-15. Furthermore, as the BST has not kept statistics on how many cases in which the Team had found DPm completing their tasks before the scheduled time, Audit reviewed 16 cases conducted during the period December 2014 to March 2015 and noted that in four cases (25%), the DPm concerned completed the delivery tasks satisfactorily well before the scheduled time. In two of these four cases, the DPm did not receive the OTA originally computed (see Table 6). These

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four cases had not been reported to the senior management for further investigation. Audit findings suggested that there is a need for the HKP to carry out a comprehensive review on its standard time and standard workload of the delivery beats (see paras. 2.47 to 2.50).

Table 6
Supervisory checks conducted by BST
(2014 and 2015)

Case	Month	DO of the beat	Particulars	Audit remarks
A	December 2014	A	The DPm completed the delivery tasks satisfactorily at 2:03 p.m. The scheduled arrival time at the last delivery point was 3:27 p.m.	The actual workload was in line with the standard workload. The DPm completed his tasks much earlier because the time needed for the tasks was less than the standard time.
B	February 2015	B	The DPm completed the delivery tasks satisfactorily at 3:05 p.m. The scheduled arrival time at the last delivery point was 3:42 p.m.	The actual workload was in line with the standard workload. The DPm completed the tasks some 40 minutes earlier because the time needed for the tasks was less than the standard time.
C	March 2015	C	The scheduled arrival time at the last delivery point was 3:23 p.m. and OTA for 30 minutes was approved. The DPm completed the delivery tasks satisfactorily at 1:02 p.m. before taking his lunch.	The originally approved OTA for 30 minutes was cancelled.
D	March 2015	C	The scheduled arrival time at the last delivery point was 2:55 p.m. and OTA for 70 minutes was approved. The DPm completed the delivery tasks satisfactorily at 2:36 p.m.	The originally approved OTA for 70 minutes was cancelled.

Source: Audit analysis of HKP records

2.54 To provide more accurate information on the time a DPm arrives at each delivery point so as to facilitate checking and beat revision exercises, Audit considers that the HKP may explore the use of technologies (e.g. personal digital assistant equipped with Global Positioning System or tour monitoring system (Note 27)) to keep track of the time required by DPm to complete their work.

Audit recommendations

2.55 **Audit has recommended that the Postmaster General should:**

- (a) **consider carrying out a comprehensive review of the standard time for processing and delivering different types of mail items;**
- (b) **ensure that beat revision exercises are carried out in a timely manner according to the prescribed schedule;**
- (c) **consider carrying out supervisory checks by the BST on more delivery beats;**
- (d) **ensure that the BST compiles statistics on cases where the Team found the actual mail delivery time taken by DPm is significantly deviated from the scheduled completion time and investigate the reasons for the variance to facilitate follow-up action and future beat revision exercises; and**
- (e) **explore the feasibility of using technologies (e.g. personal digital assistant with tracking function) to keep track of the time required for the DPm to complete the delivery tasks with a view to providing more accurate information for beat revision exercises.**

Note 27: *A tour monitoring system records the time when an employee reaches certain points on a tour. Checkpoints are commonly placed at the ends of the route and at critical points. The system includes handheld data loggers and sensors fixed at checkpoints.*

Response from the Government

2.56 The Postmaster General agrees with the audit recommendations. She has said that the HKP:

- (a) will carry out a comprehensive review of the standard time for processing different types of mail items so as to provide an updated basis for workload assessment for DPm;
- (b) is taking steps to augment the BST, subject to the established mechanism for post creation and staff availability, so as to catch up with the prescribed schedule for conducting beat revision exercises and carry out supervisory checks on more delivery beats;
- (c) will also explore the feasibility of using technologies (e.g. personal digital assistants with tracking function) for obtaining information on the time required for DPm to complete their delivery tasks in support of the conduct of beat revision exercises; and
- (d) aims to complete the review in 2017, before embarking on the scheduled replacement of the personal digital assistants currently used by DPm. Meanwhile, the BST has already started to compile statistics on cases where the actual mail delivery time taken by DPm is significantly different from the scheduled completion time to facilitate analysis of any variance and appropriate follow-up action.

Monitoring of staff regularly working long overtime

2.57 According to CSB Circular No. 18/2000, habitual overtime and large amount of uncompensated overtime hours are undesirable. For each year in the five-year period 2010-11 to 2014-15, Audit identified 50 staff (30 Postman grade staff and 20 Postal Officer grade staff) of the Postal Services Branch who had worked the largest number of overtime hours in that year. Audit found that many staff worked overtime on a regular basis (e.g. 38 staff had worked the largest number of overtime hours for three or more years out of the five-year period — see Table 7).

Table 7

**Staff who worked the largest number of overtime hours
(2010-11 to 2014-15)**

	Postman grade		Postal Officer grade		Total
	Postman	Senior Postman	Postal Officer	Senior Postal Officer	
	(number)				
5 years	10	Nil	2	2	14
4 years	6	Nil	5	2	13
3 years	5	1	4	1	11
2 years	13	Nil	5	4	22
1 year	31	1	14	5	51
Total	65	2	30	14	111

Source: Audit analysis of HKP records

2.58 Audit analysed the overtime and staff records of the 111 staff (see Table 7) and found that:

- (a) some staff of the AMC had worked significant amount of overtime (paras. 2.59 to 2.61);
- (b) some staff were not required to exhaust TOIL before taking vacation leave (paras. 2.62 and 2.63); and
- (c) some staff had taken long sick leave and worked long overtime (paras. 2.64 and 2.65).

Some staff of AMC had worked significant amount of overtime

2.59 Most of the 111 officers who regularly worked overtime (see Table 7 in para. 2.57) were staff of the AMC of the International Mail Division. In particular, there were 14 staff who had worked the largest number of overtime hours in all the five years. They worked some 990 to 1,440 hours of overtime (average 1,115 hours) each year (1,084 hours compensated by OTA and 31 hours by TOIL). Audit noted that the average age of these 14 staff was 51 years old as at 31 March 2015 (ranging from 40 to 59, with four staff aged 55 or above).

2.60 In response to Audit's enquiry, the HKP informed Audit in September 2015 that:

- (a) the AMC operated round-the-clock throughout the year, including Sundays and public holidays. The staff there mainly worked in two eight-hour shifts, supplemented by overtime work, to meet the HKP's pledged performance standards. Taking account of fluctuations in the mail volume, diverse flight schedules and the uneven distribution of workload throughout the day due to varying mail arrival time, the HKP organises the duty rosters of its civil service staff at the AMC to align with the mail arrival pattern as far as practicable. The HKP revisited the arrangement in May 2015 and found that it was not cost-effective to create another shift (with additional civil service or NCSC posts) as slack hours will result. On the other hand, part-time jobs are unattractive to job-seekers;
- (b) overtime work was incurred to cope with the manpower shortage arising from vacancies. The HKP had encountered considerable difficulty in recruiting NCSC staff because of the intense competition for manpower at Chek Lap Kok despite various efforts such as distributing household circulars and organising a recruitment event at Tung Chung (Note 28);

Note 28: *In this regard, the HKP had informed Audit that as at 1 July 2015, there were 9 Operations Assistant vacancies and 11 Worker vacancies at the AMC, accounting for 4.1% and 9.7% respectively of the Operations Assistant and Worker workforce of the AMC.*

- (c) the HKP had made continuous effort in process re-engineering and relocating part of the operations of AMC to other units in town (e.g. relocating the Inward Registered Section of the AMC to the CMC in May 2014) in order to maximise the use of resources as well as addressing the difficulties in recruitment of contract staff at AMC; and
- (d) as overtime work is undertaken on a voluntary basis, relevant operational divisions have expanded their overtime rotation lists by inviting more staff to perform overtime work. Manpower reviews in operational units were conducted in early 2015 to assess the requirements for additional regular positions, if any. Since September 2014, the management of the AMC had been training up a larger pool of staff to share out the overtime work. It had also taken various measures to minimise the incurrence of overtime.

2.61 Audit appreciates the difficulties faced by the HKP. Nevertheless, CSB Circular No. 18/2000 stipulates that when overtime becomes a regular pattern of work or has reached an excessive level, management should review the work patterns and consider alternative methods of deploying staff, such as re-scheduling duty hours or the weekly rest days. The HKP needs to keep under review the operation and workload of the AMC with a view to reducing overtime work and reallocating staff among different sections. The HKP also needs to take effective action to reduce the vacancy rate of NCSC staff working in the AMC.

Some staff not required to exhaust TOIL before taking vacation leave

2.62 According to CSB Circular No. 18/2000, 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 CSRs (see para. 2.33). Audit examined the leave records of the 50 staff who worked the largest number of overtime hours for 2014-15 and found that 8 staff of Postal Officer grade and 20 staff of 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.

Management of mail processing

2.63 In response to Audit's enquiry, the HKP accepted that there were a few cases where the staff concerned were granted vacation leave instead of TOIL although their vacation leave balance had not reached the maximum accumulation limit and/or uncompensated TOIL balance had reached the departmental ceiling of 50 hours. This was because some supervisors did not strictly observe the guidelines on the granting of vacation leave. To address this issue, the HKP said that:

- (a) it had reminded all supervisors of the need to strictly observe the requirements of the relevant guidelines;
- (b) it had additionally introduced procedures requiring staff in the Postal Services Branch to make self-declaration on their vacation leave balance and TOIL balance when applying for vacation leave. For staff in the Postal Services Branch who used the Government's Electronic Leave Application and Processing System for submitting leave applications, the self-declaration arrangement commenced in July 2015; and
- (c) in August 2015, this self-declaration arrangement was extended to those Divisions in the Postal Services Branch where vacation leave applications were made on paper forms.

Some staff took long sick leave and worked long overtime

2.64 Audit noted that in some cases, staff of the HKP worked long overtime during periods where long sick leave were granted to them. The cases were referred to the HKP for follow up. In response to Audit's enquiry in August 2015, the HKP reviewed the records of the 111 civil servants who had worked the largest number of overtime hours during the period 2010-11 to 2014-15 (see para. 2.57). The HKP had identified signs of suspected abuse of sick leave in two cases. Staff who were suspected of abusing sick leave would be placed under the CSR 1291 requirement (Note 29) and subjected to quarterly reviews on the sick leave situation. The HKP had also asked supervisors in operational units to tighten up control on the shop floor and refrain from assigning overtime work to staff after receiving medical treatment.

Note 29: *According to CSR 1291, the staff concerned is required to attend before a Government or Hospital Authority medical officer on each occasion he wishes to take sick leave.*

2.65 In the light of the above findings mentioned in paragraphs 2.57 to 2.64, the HKP needs to tighten up its monitoring of staff who have to work long overtime and ensure that the relevant CSRs and CSB circular are complied with.

Audit recommendations

2.66 **Audit has *recommended* that the Postmaster General should:**

- (a) **review the operation and workload of different sections at the AMC with a view to rationalising their workload and reducing the need for overtime work;**
- (b) **provide more training to AMC staff in order to expand the pool of staff possessing specific experience/expertise and facilitate flexible staff deployment;**
- (c) **take necessary action to reduce the vacancy rate of NCSC staff working at the AMC; and**
- (d) **remind frontline supervisors to:**
 - (i) **strictly follow the relevant regulations in the granting of TOIL; and**
 - (ii) **avoid requiring staff who took long sick leave to work long overtime unless they have fully recovered.**

Response from the Government

2.67 The Postmaster General agrees with the audit recommendations. She has said that the HKP:

- (a) will continue with its ongoing effort to reduce the need for overtime work at the AMC. Various measures, for example, re-engineering the work processes, reviewing the duty schedules, expanding the pool of staff who could take up overtime work through multi-skill training as well as expanding the pool of staff who are willing to take up cross-divisional overtime work, will continue; and
- (b) has conducted briefings for all frontline supervisors recently. In addition to issuing periodic reminders and conducting periodic briefings for frontline supervisors, the HKP will consider appropriate measures to ensure that the stipulated requirements on the administration of overtime work are followed.

PART 3: MANAGEMENT OF POST OFFICES

3.1 This PART examines the HKP's management of post offices. Audit has found scope for improvement in the following areas:

- (a) performance of post offices (paras. 3.3 to 3.13); and
- (b) provision of mobile post offices (paras. 3.14 to 3.19).

Background

3.2 As at 30 September 2015, there were 124 post offices (see Table 8) and 3 mobile post offices to provide various postal and non-postal services. These services include acceptance of parcels and registered/Speedpost mail, counter sales of stamps and philatelic products, and PayThruPost service for payments of bills (e.g. government bills and utility bills).

Table 8
Provision of post offices in 18 districts
(30 September 2015)

District	No. of post offices
Hong Kong Island	
1. Central and Western	7
2. Wan Chai	7
3. Eastern	10
4. Southern	8
Sub-total	32
Kowloon	
5. Yau Tsim Mong	6
6. Sham Shui Po	7
7. Kowloon City	7
8. Wong Tai Sin	7
9. Kwun Tong	8
Sub-total	35
New Territories	
10. Tsuen Wan	5
11. Tuen Mun	6
12. Yuen Long	6
13. North	4
14. Tai Po	3
15. Sai Kung	5
16. Sha Tin	13
17. Kwai Tsing	7
18. Islands	8
Sub-total	57
Total	124

Source: Audit analysis of HKP records

Performance of post offices

Majority of post offices operating at a loss

3.3 Most of the operating costs of the post offices were staff costs and accommodation costs. In 2014-15, 103 (81%) of 127 post offices (including the 3 mobile post offices) recorded loss, ranging from \$350,000 to \$5.2 million. The details are summarised in Table 9.

Table 9

**Post offices operated at a loss
(2014-15)**

Loss per post office	Number of post offices	Total amount of loss (\$ million)
\$1 million or below	17	12.2
> \$1 million to \$2 million	72	103.3
> \$2 million to \$3 million	10	23.7
> \$3 million to \$4 million	3	10.4
> \$4 million	1	5.2
Total	103	154.8

Source: Audit analysis of HKP records

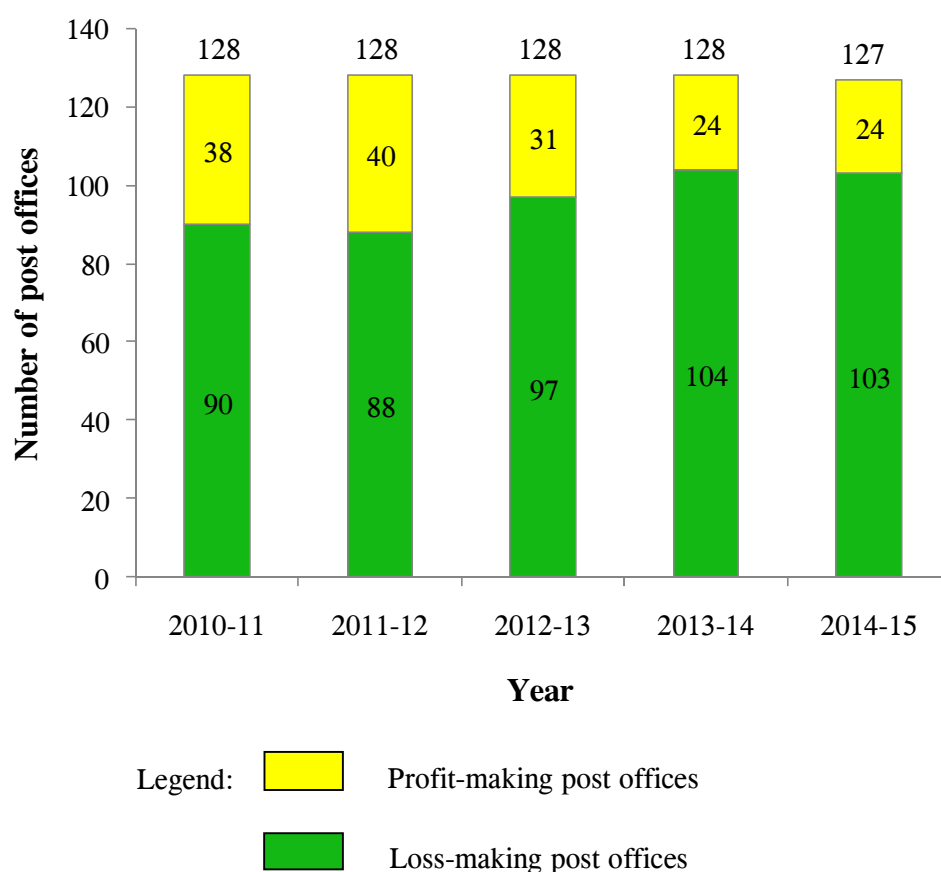
Management of post offices

3.4 Audit analysis of the operating results of the post offices in the five years 2010-11 to 2014-15 revealed that:

- (a) the number of post offices making loss increased from 90 (70% of 128 post offices) in 2010-11 to 103 (81% of 127 post offices) in 2014-15 (see Figure 6); and
- (b) 84 (66% of 127 in 2014-15) post offices made loss in all the five years.

Figure 6

Financial performance of post offices (2010-11 to 2014-15)



Source: Audit analysis of HKP records

Productivity index

3.5 Each post office is headed by a Postmaster, with staff establishment comprising Postal Officer grade, Postman grade and NCSC staff. According to the HKP, the minimum staff establishment of a post office is two, comprising one Senior Postal Officer and one Senior Postman. In determining the number and composition of staff in a post office, the HKP would take into account various factors, such as the scale and mail traffic of the post office. As at 30 June 2015, some 700 staff were deployed in 124 post offices and 3 mobile post offices (see Table 10).

Table 10
Deployment of staff in 127 post offices
(30 June 2015)

Number of staff in each post office	Number of post offices	Total number of staff
2	51	102
3 to 5	38	147
6 to 10	23	179
11 to 15	10	124
16 to 20	3	53
21 to 40	1	34
Over 40	1	59
Total	127	698

Source: Audit analysis of HKP records

Management of post offices

3.6 The HKP uses a productivity index (Note 30), together with other mail traffic and resource statistics, for assessing the performance of each post office having regard to individual post offices' operational circumstances. According to the HKP, when departure from the normal trend and pattern is observed, operations managers will further ascertain and identify the underlying reasons with the aid of other relevant operations and management data as well as feedback from frontline staff, taking into account the specific local circumstances of individual post offices, and draw up improvement measures. The HKP produces monthly reports showing the productivity index of each post office for management review.

3.7 Audit analysed the productivity indices of 126 post offices (excluding one post office which was replaced by a mobile post office in April 2015) for 2014-15. Audit noted that the productivity indices of 28 post offices were below 70% (see Table 11 below — Note 31). Of these 28 post offices, all except one post office were operating at a loss in 2014-15. Furthermore, the productivity indices of two mobile post offices and five post offices on the outlying islands, as well as nine post offices, were consistently below 70% for the three years 2012-13 to 2014-15.

Note 30: *The productivity index was used by the HKP to measure the manpower utilisation at individual post offices.*

$$\begin{aligned} \text{Productivity index} &= \text{Staff hours required} \div \text{Staff hours used} \times 100\% \\ \text{Staff hours required} &= \text{Number of items handled} \times \text{standard time applicable} \\ &\quad \text{to the service} \end{aligned}$$

Note 31: *The HKP identified post offices with productivity index of 13% or more below the average productivity index of all post offices in the past six months for management attention. Audit used 70% (by deducting 13% from 79% (average productivity index in 2014-15), say 70%) for analysis purpose.*

Table 11

**Productivity indices of post offices
(2014-15)**

Productivity index	Number of post offices
45 % to 50 %	2
51 % to 60 %	5
61 % to 70 %	21
71 % to 80 %	44
81 % to 90 %	39
91 % to 100 %	11
Over 100 %	4 (Note)
Total	126

Source: Audit analysis of HKP records

Note: The percentages ranged from 109% to 121%.

Remarks: The average productivity index of the 126 post offices was 79%.

3.8 In response to Audit's enquiry, the HKP informed Audit in September 2015 that:

- (a) post offices with productivity indices under 70% were broadly categorised into two groups: (i) 2-man or 3-man post offices on outlying islands/in more remote areas and mobile post offices for which the manpower deployed was already minimal; and (ii) post offices with extended business hours; and
- (b) to improve the productivity indices of post offices (see (a)(i) above), the business hours of 59 post offices (mainly 2-man and some 3-man post offices except mobile post offices and post offices on outlying islands) were shortened with effect from February 2015. For post offices with

extended business hours (see (a)(ii) above), the HKP had adopted staff deployment measures (e.g. staggered duty hours). The HKP had observed improvement in the productivity indices in 2015-16 (up to July 2015).

Need to make improvement efforts to rationalise the post office network

3.9 In the past few years, the HKP had made efforts to rationalise the post office network, including:

- (a) downsizing some loss-making post offices (e.g. Lei Tung Post Office in June 2011 and Sha Kok Post Office in September 2014) by reprovisioning them to locations with reduced floor area;
- (b) closing Chuk Yuen Post Office on every Wednesday with effect from February 2015;
- (c) shortening the business hours of 59 post offices from February 2015; and
- (d) replacing the Lok Wah Post Office with a mobile post office with reduced opening sessions (three mornings in a week) since April 2015.

3.10 Audit examined the distribution of post offices in various districts (see Table 8 in para. 3.2). Audit noted that some post offices were located within walking distance from another post office. Audit considers that the HKP needs to take into account the proximity of alternate post offices when devising measures to improve the resource utilisation and efficiency of post offices (e.g. staggered duty hours as mentioned in para. 3.8(b)).

3.11 In view of the fact that the majority of post offices were operating at a loss (see para. 3.3), and productivity indices of some post offices were consistently below 70% (see para. 3.7), Audit considers that the HKP needs to make continuous efforts to rationalise its post office network, including closely monitoring the performance of post offices. The HKP needs to make vigorous efforts to improve performance of post offices having regard to the service demand and operating costs, including exploring the feasibility of:

- (a) consolidating some post offices with other post offices in proximity;
- (b) downsizing some post offices with low demand for services through reprovisioning to locations with reduced floor area when opportunity arises;
- (c) replacing some post offices by mobile post offices;
- (d) for those post offices with low demand for services which were not feasible for closure, reducing their opening hours; and
- (e) redeploying staff of post offices with spare capacity in manpower resources.

Audit recommendations

3.12 **Audit has *recommended* that the Postmaster General should:**

- (a) **conduct regular reviews on the performance of post offices and make efforts to improve their performance, taking into account the demand for postal services, financial viability and manpower utilisation of individual post offices; and**
- (b) **continue the HKP's efforts to rationalise the post office network, including exploring the feasibility of consolidating the services provided by post offices to enhance resource utilisation and efficiency.**

Response from the Government

3.13 The Postmaster General agrees with the audit recommendations. She has said that the HKP:

Management of post offices

- (a) has been closely monitoring the overall performance of its post office network and taking appropriate actions to ensure its cost-effective operation. In doing so, it gives due consideration to the Government's responsibility to meet the postal needs of the public, local service demand, alternative means of service provision and the need to optimise the use of resources; and
- (b) will continue to manage the costs of service provision, explore new revenue streams and identify opportunities for further rationalisation.

Provision of mobile post offices

3.14 The HKP has used mobile post office (see Photograph 2) since 1960 to provide postal services, e.g. sales of stamps, acceptance of mail, and PayThruPost service (Note 32), to residents in remote and scattered villages. In discharge of the Government's universal postal service obligation (Note 33), the HKP operates these mobile post offices to complement its network of post offices and street posting boxes. There are two mobile post offices (Mobile Post Offices No.1 and No.2) serving various districts (such as Tuen Mun, Fanling, Yuen Long and Sha Tin) in the New Territories. In April 2015, a third mobile post office came into operation to replace the Lok Wah Post Office (see para. 3.9(d)). This mobile post office provides services only at Lok Wah (North) Estate in Kwun Tong. Each mobile post office is manned by two staff comprising a Senior Postal Officer and a Senior Postman. The operation of the three mobile post offices was summarised in Table 12.

Note 32: *There are limitations to the services provided, such as the maximum weight of each Speedpost/parcel item and local courier item are 10 kilograms and 2 kilograms respectively, and the maximum number of items per posting is five.*

Note 33: *Under the universal postal service obligation, the HKP has to charge a flat rate for all delivery addresses in Hong Kong and to maintain an extensive mail collection and mail delivery network.*

Photograph 2

HKP Mobile Post Office No. 2



Source: Photograph taken by Audit on 7 August 2015

Table 12
Operation of three mobile post offices
(30 June 2015)

Mobile Post Office	No. of service points	No. of visits per week for each service point	Duration of stay per visit
No. 1	33	1 to 3	15 to 50 minutes (Note)
No. 2	25	1 to 3	15 to 30 minutes
No. 3	1	3	3.5 hours

Source: Audit analysis of HKP records

Note: The duration of stay at each service point (except the Hong Lok Yuen service point) ranged from 15 to 30 minutes. For the Hong Lok Yuen service point, the duration of stay was 50 minutes.

Remarks: Mobile Post Offices No. 1 and No. 2 each visited on average 8 service points per day (ranging from 6 to 10 service points). Mobile Post Office No. 3 served one designated service point (Lok Wah (North) Estate) in Kwun Tong.

3.15 The HKP takes into account the following factors when it includes a place as a service point of a mobile post office:

- (a) it is inconvenient for the customers in the area to reach the nearest posting facilities easily;
- (b) it is cost-effective to add the service point when comparing with the business of the existing ones;
- (c) the service point is not within the catchment area of any existing/planned post office;

- (d) the setting up of the service point can release the customer pressure for request of addition/relocation of a post office; and
- (e) the service point can be added by adjusting the current schedules of the mobile post offices.

3.16 In 2009, the HKP conducted a review on the operation of mobile post offices, which resulted in deletion of 2 service points and creation of 15 new service points. To cope with the increase of service points, the frequency of visits to 13 points was reduced by 1 to 2 times each week. Since then, no further review on the provision of service points has been conducted (Note 34). In the light of the improvement of public transport network in the New Territories, Audit considers that the HKP needs to review the existing routes of the two mobile post offices serving the New Territories to enhance cost-effectiveness, taking into account its universal postal service obligation and the following factors:

- (a) ***Demand for postal service.*** The HKP does not maintain periodic statistics on the number of customers or items handled at each service point. Audit accompanied each of Mobile Post Offices No. 1 and No. 2 on two days, and noted that the number of customers and items handled for the service points were small. On average, each mobile post office served 11.5 customers and handled 12.5 items per day (see Table 13). For some service points, there were no customers;

Note 34: *In 2012, the HKP conducted a review to examine the feasibility of shortening the service duration of the service points to 15 minutes with a view to minimising the duration of unfavourable working conditions to its staff after the implementation of the Motor Vehicle Idling (Fixed Penalty) Ordinance (Cap. 611).*

Table 13**Patronage of mobile post office
(August and September 2015)**

Date	No. of service points	Total no. of customers served	Total no. of items handled
Mobile Post Office No. 1			
27 August 2015 (Thursday)	10	8	9
1 September 2015 (Tuesday)	9	10	12
Mobile Post Office No. 2			
7 August 2015 (Friday)	8	20	20
25 August 2015 (Tuesday)	10	8	9
Average per day	9.3	11.5	12.5

Source: Audit site visits in August and September 2015

- (b) ***Location of nearby post office.*** The locations of some service points are in close proximity to nearby postal facilities which can be easily accessed through public transport; and
- (c) ***Financial performance.*** The two mobile post offices only generate a small amount of revenue and have been operating at a loss. The annual loss incurred by each mobile post office has been more than \$1 million each.

3.17 The third mobile post office commenced operation in April 2015 to replace the Lok Wah Post Office. The mobile post office provides service three days a week, with service hours from 9 a.m. to 12:30 p.m. (3.5 hours). The HKP needs to keep in view the third mobile post office's service performance.

Audit recommendations

- 3.18 **Audit has *recommended* that the Postmaster General should:**
- (a) **review the existing routes of the two mobile post offices serving the New Territories taking into account the service points' mail traffic and their proximity to nearby postal facilities;**
 - (b) **keep in view the service performance of the mobile post offices; and**
 - (c) **explore the potential of using mobile post offices to replace some post offices where feasible.**

Response from the Government

- 3.19 The Postmaster General agrees with the audit recommendations. She has said that the HKP:
- (a) is conducting a review on the existing routes of the two mobile post offices serving the New Territories having regard to the service demand at the existing service points, the Government's mission to provide accessible postal service to the public and other relevant factors such as resource implications; and
 - (b) will keep in view the service performance of mobile post offices to ensure that they continue to meet the postal needs of the local community.

PART 4: MANAGEMENT OF POSTAL VEHICLES

4.1 This PART examines the HKP's management of postal vehicles. Audit has found scope for improvement in the following areas:

- (a) management of HKP's vehicles (paras. 4.4 to 4.19); and
- (b) management of hired vehicles (paras. 4.20 to 4.30).

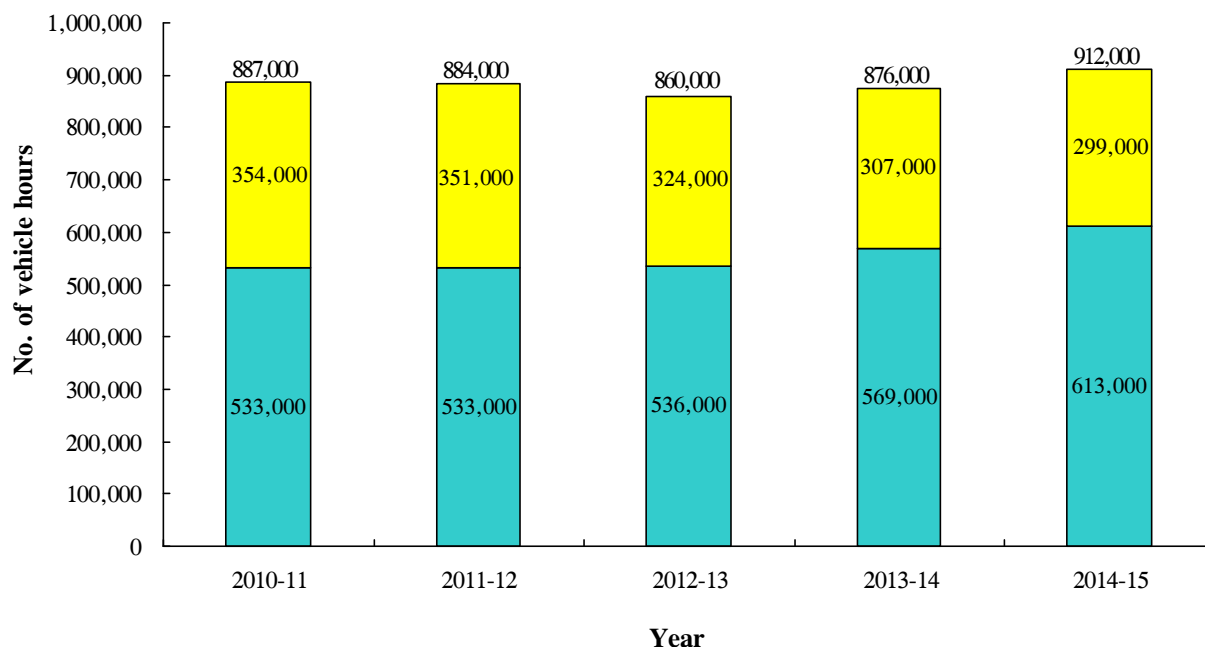
Background

4.2 As at 31 March 2015, the HKP had a vehicle fleet of 277 vehicles. In addition, the HKP also hired some 350 vehicles of different types such as light goods vehicles and trucks to supplement its own fleet. These vehicles were used for the collection and delivery of mail items such as collecting mail items from post offices and street posting boxes for delivery to the CMC, and transferring mail items between the mail processing centres and DOs.

4.3 In 2014-15, some 912,000 vehicle hours were used for transportation of mail items, involving expenditure of \$159 million. In the five years from 2010-11 to 2014-15, the number of vehicle hours increased by 2.8% from 887,000 hours to 912,000 hours (see Figure 7), while the expenditure increased by 28% from \$124 million to \$159 million.

Figure 7

**Number of vehicle hours
(2010-11 to 2014-15)**



Legend: HKP's vehicle hours
 Hired vehicle hours

Source: *HKP records*

Management of HKP's vehicles

Number of HKP's vehicles remained about the same

4.4 In the Director of Audit's Report No. 54 (March 2010), Audit recommended the HKP to consider inviting the Government Logistics Department (GLD) to conduct a transport review on HKP's vehicle fleet and the arrangements for the hiring of vehicles to identify room for improvement. In August 2011, the GLD completed the transport review and recommended the HKP to:

Management of postal vehicles

- (a) reduce the number of departmental vehicles so as to enhance efficiency and cost-effectiveness; and
- (b) consider using more hired vehicles to replace its departmental vehicles where it is practical and cost-effective (Note 35).

4.5 According to the HKP, it had implemented the GLD's recommendations as follows:

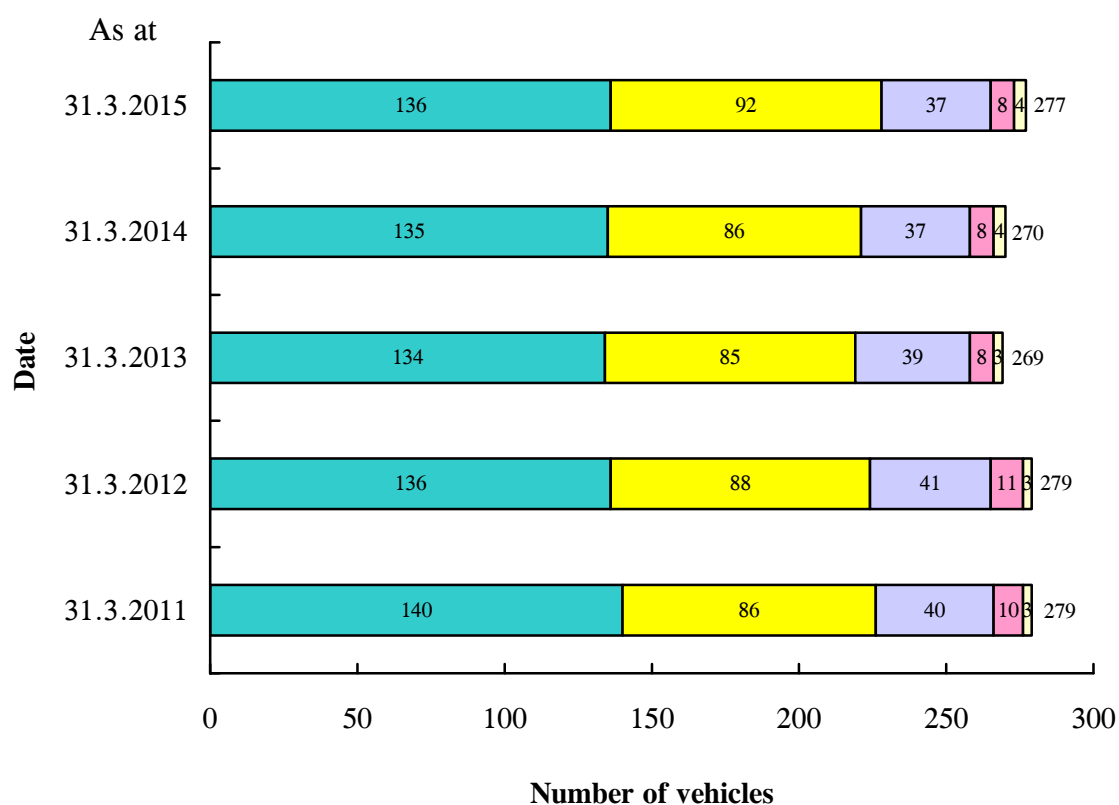
- (a) the number of departmental vehicles were reduced from some 300 in 2010 to 277 in March 2015; and
- (b) subject to operational constraints (e.g. mail security), hired vehicles were used as far as practicable.

4.6 The number of HKP's vehicles remained at about 270 during the years 2011 to 2015 (see Figure 8). According to the HKP, while some vehicles were reduced according to the GLD's recommendations, additional vehicles were procured (e.g. arising from the creation of new motorised beats — see para. 4.7(a)). Audit noted that while the number of vehicles remained about the same, the number of vehicle hours decreased by about 16% (from 354,000 hours to 299,000 hours) during the same period. The HKP needs to closely monitor the utilisation of its vehicle fleet.






Note 35: *According to the GLD's calculation, the cost of using hired vehicles was about half of the cost of using HKP's own vehicles. However, the difference would be much smaller if a postman had to be deployed to escort a hired vehicle.*

Figure 8

Number of HKP's vehicles
(2011-2015)



Legend:

 Vans (Note)	 Small estate cars (Note)
 Trucks (Note)	 Vehicles carrying passenger
 Mobile post offices (light bus)	

Source: HKP records

Note: Vans, small estate cars and trucks were deployed for transportation of mail and parcels (see para. 4.2).

Management of postal vehicles

4.7 Audit examined the procurement for additional vehicles and found that the usual justifications put up by the HKP were:

- (a) additional vehicles were required as a result of creation of new motorised beats after the beat revision exercise. Many of these beats were performed by hired vehicles before the procurement of vehicles;
- (b) it was not desirable to use hired vehicles to further increase such use; and
- (c) the existing utilisation rate was high, e.g. 85% as stated in 2013-14 and 2014-15 procurement exercise.

Audit noted that the HKP did not provide cost-benefit analysis on using its vehicles vis-à-vis hired vehicles (Note 36).

4.8 In response to Audit's enquiry, the HKP informed Audit in September 2015 that it adopted a prudent approach to the procurement of departmental vehicles by:

- (a) replacing only those vehicles which were condemned or beyond their service life;
- (b) meeting the need for vehicular transportation arising from ad hoc tasks with existing departmental vehicles; and
- (c) procuring new vehicles, as a last resort, to meet long-term operational needs or due to special requirements.

Note 36: *In this regard, in a review conducted in June 2015 by the HKP on the service contracts for hired trucks (see para. 4.25), the hourly rate of using hired vehicle was about half of that using HKP's own vehicle. According to the HKP, the two rates would be comparable if a postman had to be deployed to escort a hired vehicle (see also Note 35 to para. 4.4(b)). Audit noted that not all hired vehicles required escort.*

The HKP said that additional vehicle requirements would also be vetted by the GLD. To enhance capital project management, the HKP revised its Departmental Rules in May 2015 requiring the responsible officer of capital projects to conduct a cost-benefit analysis when seeking funding approval.

Inaccurate utilisation rate

4.9 Each month, based on the information provided by the two transport offices (i.e. in the GPO and CMC), the HKP's Management Services Division produces report on the utilisation rate of each type of vehicles for management information. The HKP uses a standard formula to calculate the utilisation rate, taking into account the following factors:

- (a) ***Number of hours used.*** The number of hours used was extracted from the vehicle log book, which recorded the departure time and arrival time of each journey; and
- (b) ***Number of hours available.*** The number of hours available was the number of working hours (number of working days \times working hours per day — Note 37) minus:
 - (i) the number of hours the vehicle was under repairs and maintenance;
 - (ii) the number of hours when drivers were not available (working hours per day \times number of days not available); and
 - (iii) the number of loading/unloading hours. The HKP pre-determined the loading/unloading hours for different types of vehicles, ranging from 1 hour to 4.5 hours per day.

Note 37: *Depending on the types of vehicles, the working hours ranged from 9 hours to 13.5 hours per day.*

Management of postal vehicles

4.10 Audit examined the calculation of utilisation rate and noted some shortcomings, such as:

- (a) ***Long pre-determined loading/unloading time for some types of vehicles.***
The loading/unloading time per day for medium truck under the administration of CMC Transport Office was pre-determined as 4.5 hours. Audit visited six offices and noted that the loading/unloading time for most journeys was less than 30 minutes. The total loading/unloading time per day could be less than 4.5 hours; and
- (b) ***Incorrectly counting some loading/unloading time as usage time.***
According to the HKP's calculation method, the loading/unloading time was deducted from the available hours because the usage hours did not include such time. However, Audit noted that very often in the vehicle log books, for a journey involving several loading/unloading points, only one departure time (start of journey) and one arrival time (end of journey) was recorded. As a result, counting the loading/unloading time between the departure time and arrival time could have overstated usage hours.

4.11 In response to Audit's enquiry, the HKP informed Audit in September 2015 that:

- (a) the current formula and assumptions used in calculating the utilisation rates did not reflect the current usage patterns of the departmental vehicles. The available hours for each type of vehicles were determined in 1999 and no longer reflect the changes made over the years to the postal operations;
- (b) the HKP saw a need to first review and update the formula for calculating the utilisation rates for different types of departmental vehicles having regard to the prevailing operational conditions, and then conduct a detailed analysis based on the utilisation rates calculated on the basis of the updated formula to identify if there were cases warranting further attention; and

- (c) notwithstanding the shortcomings of the existing formula for calculating the utilisation rates of the HKP's departmental vehicles, the HKP had been closely monitoring the utilisation of its departmental vehicular fleet by reference to information provided by the GLD (Note 38).

Low utilisation of some vehicles

4.12 As at 31 March 2015, there were 277 HKP's vehicles, of which 265 (96%) were used for transportation of mail items. The overall utilisation rate of vehicles used for mail transportation for 2014-15, as calculated by the HKP's current formula, was 80%, ranging from 36% to 146% (Note 39). Audit noted that after adjusting for the shortcomings of the HKP's calculation method (see para. 4.10), the utilisation rate of 15 vehicles was 50% or below (see Table 14 below).

Note 38: *The GLD issues half-yearly exception reports on vehicle utilisation to departments for necessary action, basing on two criteria:*

- (a) *the kilometre run of the vehicle was 30% or less than the normal kilometre run of the same type of vehicle in the government fleet during the period; and*
- (b) *the monthly average idle days of the vehicle were 6 days or more.*

Note 39: *Reasons for some utilisation rates exceeding 100% included:*

- (a) *some vehicles, such as trucks and medium vans, were required to transport mail on Sunday (e.g. to collect mail from street posting boxes). However, Sunday was not counted as working day in HKP's method of calculating utilisation rate (see para.4.9); and*
- (b) *loading/unloading time might be included as usage hours as a result of improper completion of vehicle log book (see para. 4.10(b)) and was also deducted from the number of available hours (see para. 4.9(b)).*

Table 14
Vehicles with utilisation rate of 50% or below
(2014-15)

Vehicle type	Vehicle	Utilisation rate (Note)
Small estate car	1	28 %
	2	38 %
	3	43 %
	4	47 %
	5	48 %
	6	50 %
Large van	7	36 %
	8	37 %
	9	43 %
	10	49 %
Light truck	11	35 %
	12	39 %
	13	50 %
	14	50 %
Medium truck	15	34 %

Source: Audit analysis of HKP records

Note: The utilisation rates were based on Audit's calculation by taking into account the shortcomings of HKP's current method as mentioned in paragraph 4.10.

Audit considers that the HKP needs to closely monitor the utilisation of its vehicles (particularly those with low utilisation rates) to enhance efficiency and optimise the use of its vehicles.

4.13 In response to Audit's enquiry, the HKP informed Audit in September 2015 that of these 15 vehicles:

- (a) some were used as reserve vehicles and deployed for ad hoc operational tasks;
- (b) small estate cars in DOs were deployed for motorised delivery beats and their utilisation rates were closely related to the duty hours of the DPm (the serviceable time during mail delivery should be about 5 hours instead of the preset 9 hours); and
- (c) the utilisation of vehicles serving the CMC was affected by staff vacancies of Postman Driver posts. The HKP had launched a new recruitment exercise. It expected the utilisation rates of these vehicles to be improved when the aforementioned vacancies were filled.

Need to tighten supervisory checking

4.14 The HKP's vehicles are mainly deployed to mail processing centres, DOs and Speedpost Operations Centres for transportation of mail items (see para. 4.2). The HKP has established various supervisory measures to monitor the use of these vehicles (see Table 15).

Table 15

Supervisory measures on HKP's vehicles

Type of vehicles	Supervisory measures
All vehicles	<p>(A) Vehicle log book:</p> <ul style="list-style-type: none"> • records the points of departure and destination, and the departure time and arrival time • driver (pre-schedule route) or user (ad hoc trip) is required to sign on the log book for each journey • supervisor (i.e. Superintendent of Posts or Senior Postal Officer) periodically check the log book and sign on the log book after checking
<p>For vehicles deployed for:</p> <ul style="list-style-type: none"> • transferring mail items between the mail processing centres and DOs • collecting mail items from post offices and street posting boxes to the CMC 	<p>(B) Supervisory snap check on vehicles and drivers:</p> <ul style="list-style-type: none"> • supervisor (i.e. Superintendent of Posts or Senior Postal Officer) conducts surprise check regularly at selected call point to ensure vehicle arrives at the scheduled location and the conduct of the driver meets the driving requirements (e.g. turning off idling car engine and driving in a safely manner)
<p>For vehicles deployed to:</p> <ul style="list-style-type: none"> • Motorised Delivery Beat (to perform mail delivery service in remote and scattered areas) • Speedpost/Parcel Team 	<p>(C) Surprise call point check</p> <ul style="list-style-type: none"> • Postal Inspector conducts surprise inspection on selected call point, which included vehicle inspection and checking of vehicle log book, driver's and Postman's appearance and manner, and their performance on delivery and pick up service • frequency of checking: <ul style="list-style-type: none"> — Motorised Delivery Beat: not less than 6 times a year — Speedpost/Parcel Team: not less than 24 times a year
	<p>(D) Superior spot check</p> <ul style="list-style-type: none"> • Manager and Senior Postal Inspector/Superintendent of Posts check on Postal Inspector to ensure that the surprise call point check (see (C) above) is properly conducted • frequency of checking: <ul style="list-style-type: none"> — Superintendent of Posts: not less than one Postal Inspector every two weeks — Manager: not less than one Postal Inspector each month

Source: HKP records

4.15 Audit visited six offices in July and August 2015 and examined the inspection records (for 2014-15) of supervisory measures described in Table 15. Audit noted that the number of checks conducted by the responsible officers was less frequent than required in respect of vehicles deployed to Motorised Delivery Beat and Speedpost/Parcel Team (see Table 16).

Table 16

**Results of Audit examination of inspection records for vehicles
deployed to Motorised Delivery Beat and Speedpost/Parcel Team
(2014-15)**

Office	No. of HKP's vehicle	Surprise call point check (see item (C) of Table 15)	Superior spot check (see item (D) of Table 15)
A	13	291 (93%) of the required 312 checks not conducted	The Superintendent of Posts did not meet the Postal Inspector at the check point (see item (D) of Table 15 in para. 4.14). No superior spot check was conducted by the Manager.
B	4	In order	4 (15%) of the required 26 checks not conducted
C	2	47 (98%) of the required 48 checks not conducted	No evidence of checking
D	6	In order	In order

Source: Audit analysis of HKP records

Remarks: Audit observations on checking of hired vehicles by these offices are reported in paragraph 4.28.

Management of postal vehicles

4.16 In response to Audit's enquiry in August 2015, one office explained that given the staff constraints (two Postal Inspectors, one Superintendant of Posts and one Manager) and the number of vehicles available to perform various checks was small, it was difficult to comply with the required frequency. Furthermore, due to the wide service areas of each team and pre-scheduled daily route was impossible because of the nature of Speedpost service, it was sometimes difficult to meet the team at the selected call point, making the check in vain (Note 40).

4.17 Audit considers that the HKP needs to tighten supervisory checking to ensure that HKP's supervisory measures are complied with. For Speedpost Operations Centres and Hubs, the HKP needs to explore efficient and effective means of monitoring the Speedpost/Parcel Teams and the vehicles provided to them, such as using Global Positioning System tracking device, to ensure the proper use of vehicles and the proper performance of the teams.

Audit recommendations

4.18 **Audit has recommended that the Postmaster General should:**

- (a) **ensure that the use of HKP's vehicles instead of hired vehicles is fully justified (e.g. by cost-benefit analysis) when procuring new vehicles for mail transportation;**
- (b) **review the methodology used and the accuracy of the pre-determined factors (e.g. loading/unloading time) in the calculation of the utilisation rate of HKP's vehicles;**
- (c) **closely monitor the utilisation of the HKP's vehicles (particularly those with low utilisation rates) and take effective actions to optimise their usage; and**

Note 40: *Audit noted that in 2014-15, six surprise call point checks were in vain due to failure to meet the teams at the selected check points, and in all 24 superior spot checks conducted, the Superintendent of Posts failed to meet the Postal Inspectors at selected check points.*

- (d) explore efficient and effective means of monitoring the Speedpost/Parcel Teams and the vehicles provided to them (e.g. using Global Positioning System tracking device) to ensure proper use of vehicles and proper performance of the teams.

Response from the Government

4.19 The Postmaster General agrees with the audit recommendations. She has said that:

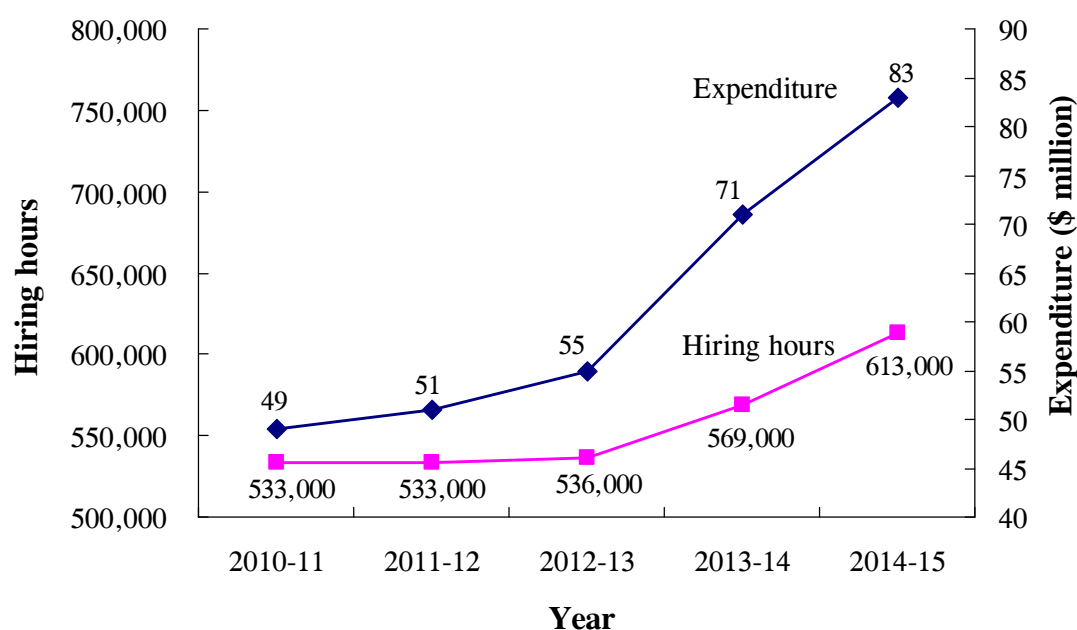
- (a) the HKP will continue to exercise prudence when considering the purchase of departmental vehicles in order to ensure that such purchase is fully justified. In May 2015, the HKP revised its Departmental Rule 176(c), requiring the conduct of a cost-benefit analysis for all capital projects, including procurement of vehicles, before seeking internal funding approval;
- (b) the HKP will review the methodology of calculating the utilisation rate of departmental vehicles. In particular, it will validate the parameters to be adopted for the formula in order to realistically reflect the prevailing operational conditions. In addition, the HKP will put in place a mechanism to ensure that the calculation methodology is kept in step with future changes to operational conditions. The HKP will closely monitor the utilisation of its vehicle fleet and take effective action to optimise the usage; and
- (c) in addition to stepping up enforcement of the existing mechanism for control of outdoor duties, the HKP is exploring efficient and effective means to enhance performance monitoring of the Speedpost/Parcel Teams and the vehicles provided to them (including exploring the feasibility and effectiveness of information technology solutions such as Global Positioning System tracking device) to ensure proper management of these teams and their vehicle fleet.

Management of hired vehicles

4.20 As at 31 March 2015, the HKP hired some 350 vehicles (some 250 light goods vehicles and some 100 trucks) under 16 contracts awarded to four contractors. The expenditure on hired vehicles increased by 69% from \$49 million in 2010-11 to \$83 million in 2014-15, while the hiring hours only increased by 15% from 533,000 hours in 2010-11 to 613,000 hours in 2014-15 (see Figure 9).

Figure 9

Expenditure and hiring hours for hired vehicles



Source: HKP records

4.21 In response to Audit's enquiry, the HKP informed Audit in September 2015 that the increase in hired vehicle expenditure was a compound effect of price increase (e.g. inflation) as well as an increase in hiring hours. In regard to the sharp increase in 2013-14, it was due to:

- (a) contract prices increased following the increase of Statutory Minimum Wage in May 2013;

- (b) additional hired vehicle hours were required for the migration of the International Mail Centre and GPO sorting office to the CMC, and for supporting additional collection and delivery teams of Speedpost Centres, etc.; and
- (c) following the adoption of the recommendations of the GLD's transport review, the HKP replaced six departmental vehicles with hired vehicles.

Reliance on a few contractors

4.22 As at 31 March 2015, there were 16 hired vehicle contracts, of which 15 contracts were awarded to three contractors (involving 328 vehicles). Similarly, for the preceding 16 contracts (commenced in the period December 2010 to August 2013), 13 contracts were awarded to two contractors (involving 236 vehicles).

4.23 Audit examination of the tendering records indicated that in the tendering exercises conducted in 2013 to 2015, there were only a limited number of tenderers. Audit also noted that the minimum number of vehicles required in each contract ranged from 20 to 38 for light goods vehicles, and ranged from 2 to 34 for trucks. Many tenderers failed to conform with the tender requirements because they failed to meet the minimum number of vehicles requirement.

4.24 The Independent Commission Against Corruption and the GLD Tender Board had expressed concern on the small number of bidders. In October 2013, the Commission recommended that the HKP should conduct market research against its service requirements and take actions (e.g. splitting the contracts into smaller ones so that more contractors would be able to meet the requirements) with a view to ensuring adequate market players capable of taking part in HKP's tender or quotation exercises. In February 2014, the GLD Tender Board (in approving the acceptance of offers for the provision of 38 and 29 light goods vehicles in Hong Kong Region and New Territories Region respectively) suggested that the HKP should review the tender requirements in view of the small number of conforming tenderers to ensure that they were not overly demanding and consider relaxing the requirements with a view to enhancing tender participation and competition.

Management of postal vehicles

4.25 In June 2015, the HKP conducted a review on the service contract for hiring of trucks for the mail processing centres. Regarding the reasons for few tenderers to make offer in the tendering exercises, the HKP collected information from the market. The main reasons included the contract scale being too large (i.e. the companies did not have the capacity to offer the required number of vehicles over a long contractual period of two years) and some restrictions (such as the height of vehicles should be under 3.2 metres) being difficult to comply with. As one of the service contracts for provision of trucks would expire in October 2015, the HKP relaxed the height restriction in the tendering exercise. However, the HKP did not split the service contract into smaller ones for reasons of inflexibility in vehicles deployment and operational difficulty.

4.26 In response to Audit's enquiry, the HKP informed Audit in September 2015 that:

- (a) the HKP shared the objective of encouraging market participation and market competition in its procurement of hired vehicle service in order to achieve better value for money, and had been taking action in this direction in its recent hired vehicle procurement exercises;
- (b) following the recommendations of the GLD Tender Board and the Independent Commission Against Corruption, the HKP had revised a number of tender specifications in the tendering exercise for the 2-year contract from 2015 to 2017 to encourage market participation and market competition. These changes included relaxing the age of hired vehicles from 7 to 8 years and vehicles of the same contractor may be used in different contracts subject to HKP's agreement; and
- (c) the current service items had been determined having regard to the need to optimise operational efficiency.

4.27 Competition is a reliable safeguard against bidders overcharging and helps secure value for money in government procurement. The HKP needs to closely monitor the extent of competition in its procurement of hired vehicles, and where necessary, take effective action to promote competition including further relaxing tender requirements or splitting contracts.

Lack of or insufficient checking on delivery beat

4.28 For hired vehicles provided to postmen for mail delivery duties in remote/scattered area or Speedpost despatch and collection service, the hired vehicles and the postman beat are subject to surprise call point checks and superior spot checks (see items (C) and (D) in Table 15 in para. 4.14). For the three offices visited by Audit which deployed hired vehicles to perform these delivery services, Audit noted that the number of checking (Note 41) conducted by the responsible officers was less frequent than required. Audit considers that the HKP needs to ensure that sufficient surprise call point checks and superior spot checks are conducted.

Audit recommendations

4.29 **Audit has *recommended* that the Postmaster General should:**

- (a) **closely monitor the extent of competition in the HKP's procurement of hired vehicles, and where necessary, take effective action to promote competition including further relaxing tender requirements or splitting contracts; and**

Note 41: *Audit examination of the inspection records (for 2014-15) of the three offices revealed that:*

- (a) *for Office A, 249 (94%) of the required 264 surprise call point checks were not conducted. No superior spot check was conducted by the Manager;*
- (b) *for Office C, 119 (99%) of the required 120 surprise call point checks were not conducted. No superior spot check was conducted by the Superintendent of Posts; and*
- (c) *for Office D, 2 (33%) of the required 6 surprise call point checks were not conducted.*

- (b) ensure that sufficient surprise call point checks and superior spot checks are conducted on hired vehicles.

Response from the Government

4.30 The Postmaster General agrees with the audit recommendations. She has said that:

- (a) the HKP will continue to closely monitor the extent of competition in the procurement of hired vehicle service and, where appropriate and feasible, further promote market participation and market competition (e.g. by further relaxing the tender requirements or splitting the contracts); and
- (b) the HKP will step up performance management of its hired vehicle contractors. The HKP will ensure that sufficient surprise call point checks and superior spot checks are conducted for hired vehicles deployed for motorised delivery beats in accordance with the prevailing beat patrol mechanism. For other types of hired vehicles, the HKP will ensure that supervisory snap checks are conducted, supplemented by additional inspection (e.g. regular inspection of vehicle log sheets and records in the eTick Sheet System) at stipulated intervals, as required under the control mechanism.

PART 5: MANAGEMENT OF CENTRAL MAIL CENTRE AND GENERAL POST OFFICE BUILDING

5.1 This PART examines the management of the CMC and the GPO Building. Audit has found scope for improvement in the following areas:

- (a) management issues of the CMC (paras. 5.2 to 5.14); and
- (b) reprovision of the GPO Building (paras. 5.15 to 5.21).

Central Mail Centre

5.2 The CMC (see Photograph 3) of the HKP is located at Wang Chin Street, Kowloon Bay. It is a six-storey building with a net operational floor area (NOFA) of 21,080 square metres (m²). The CMC is an integrated mail sorting centre which houses the International Mail Centre (IMC) previously located in Hung Hom and the sorting centre previously located at the GPO Building (Note 42). Figure 10 shows the usage of various floors of the CMC.

Note 42: *Before the setting up of the CMC, mail sorting was carried out both at the IMC and the GPO Building. The IMC was located at the south of the proposed Hung Hom Station of the Shatin to Central Link. To facilitate the construction of the Shatin to Central Link, the IMC had to be demolished and relocated to the CMC with a NOFA of 13,480 m² on a “one-to-one replacement” basis. To optimise utilisation of the CMC site (involving an expanded area of 7,600 m² that could be made available), the HKP took the opportunity to relocate the sorting centre of the GPO Building to the CMC to improve operational efficiency and to facilitate the future reprovisioning of the GPO Building.*

Photograph 3

CMC



*Source: Photograph taken by Audit on
8 September 2015*

Photograph 4

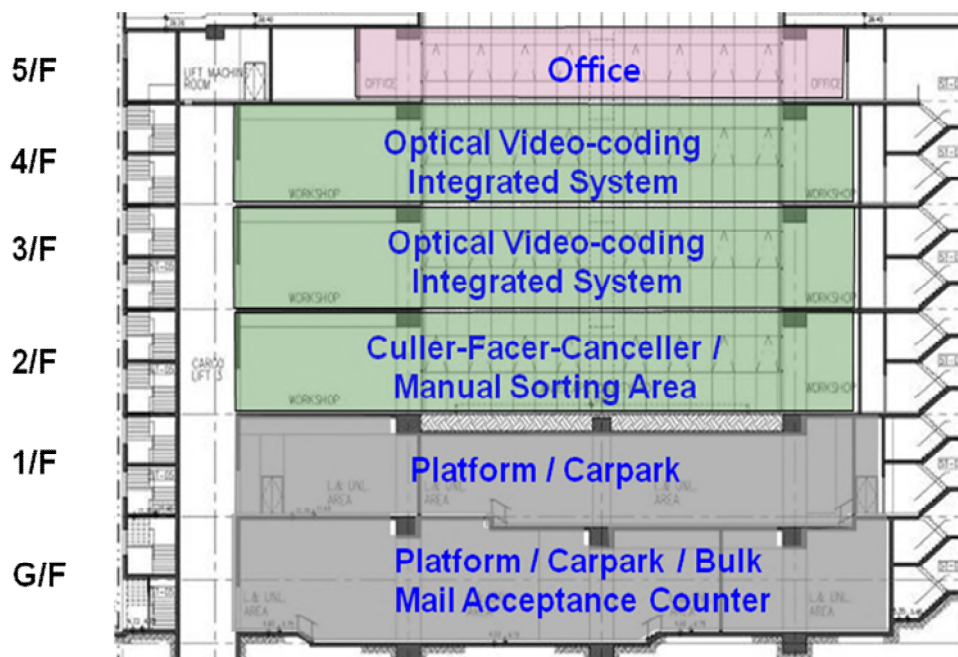
Optical Video-coding Integrated System



Source: HKP records

Figure 10

Usage of various floors of CMC



Source: HKP records

Remarks: Culler-Facer-Canceller segregates (i.e. culls) mail items according to their size/thickness and whether they are local or international. It also cancels postage stamps on letters after arranging them to face the correct way. Optical Video-coding Integrated System uses optical character recognition technology to scan the addresses on letters and sort the letters according to postman delivery beats (see Photograph 4).

5.3 Construction work of the CMC commenced in July 2011 and was completed in July 2013. Mail sorting facilities were migrated from the IMC and the GPO Building to the CMC in phases starting from December 2013. The CMC has been in full operation since November 2014. The project was completed on time. Up to 31 March 2015, the total expenditure of the CMC project was \$931 million. The project accounts were not yet closed as at September 2015.

Vetting of CMC accommodations

5.4 The Accommodation Regulations of the Government set out the policy and guiding principles on government accommodation and related matters for government bureaux/departments (B/Ds). According to the Accommodation Regulations (Regulation 312 and Annex IV (Part One)), the user B/D of a Specialist/Departmental Building has to prepare a Schedule of Accommodation (SoA) for the approval by the Property Vetting Committee (PVC — Note 43). After the approval of SoA, if the NOFA of any individual item varies by more than 10% from the approved NOFA or the total NOFA varies by more than 5% from the approved area, the user B/D should re-submit the SoA to the PVC for further approval. The CMC is a Specialist/Departmental Building and its SoA requires PVC's approval (Note 44).

Variations to SoA not submitted to PVC for approval

5.5 The SoA of the CMC (summarised at Appendix C) was approved by the PVC in June 2010. In its approval, the PVC noted the funding arrangement of the CMC (Note 45) and said that:

- (a) the Postmaster General had the authority to decide on the space and fitting requirements for new and reprovisioned offices; and
- (b) should there be any subsequent variations to the approved SoA, the HKP should act in accordance with the Accommodation Regulation 312.

Note 43: *The PVC is the approving authority under the Accommodation Regulations to vet and approve SoAs of Specialist/Departmental Buildings. It is chaired by an Assistant Director of the Architectural Services Department and comprises representatives from the Financial Services and the Treasury Bureau and the Government Property Agency as members.*

Note 44: *According to the PVC, as the major part of the CMC was funded under the Public Works Programme (by the Capital Works Reserve Fund), PVC's vetting of the SoA was required.*

Note 45: *The Government funded the reprovision of 13,480 m² of the IMC under the "one-to-one replacement" principle (see Note 42 to para. 5.2). For the expanded area of 7,600 m², it was funded by the POTF. The funding arrangement was approved by the Finance Committee of the Legislative Council in February 2011. The budget of the CMC project was \$1,701 million.*

Management of Central Mail Centre and General Post Office Building

5.6 The PVC had not specified in detail the circumstances under which the Postmaster General could decide on the space and fitting requirements or approval on variations to SoA had to be obtained from the PVC. Audit noted that as at May 2015 accommodations were provided for some divisions/sections not listed on the approved SoA of June 2010, for example:

- (a) Planning and Development Division (251 m²) (since September 2014);
- (b) Retail Business Division (241 m²) (since August 2013); and
- (c) Inward Registered Section (70 m²) (since May 2014).

5.7 In response to Audit's enquiry on the variations to the SoA, the HKP conducted a review on the SoA of the CMC and found that, although there was no significant variation on the total NOFA, there were variations exceeding 10% in 38 individual items (increase in 16 items and decrease in 22 items). In July 2015, the PVC informed the HKP that approval was required only for items which were reprovisioned from the IMC to the CMC on the basis of "one-to-one replacement" and funded under the Public Works Programme.

5.8 In August 2015, the PVC asked the Government Property Agency (GPA) to follow up on this matter. In September 2015, the GPA advised the HKP that there were two items involving area variations of more than 10% (Note 46) which required the PVC's approval. The HKP informed the GPA in the same month that the variations were due to site constraints. The GPA advised the HKP on 12 October 2015 that it had no objection to the changes in the areas of the two items.

Note 46: *The two items were: (a) a cleaner's storage room on mezzanine floor (the floor area had increased from 2.8 m² to 4.7 m²); and (b) Dead Letter Office on the fifth floor (the floor area had decreased from 220 m² to 189 m²).*

Management of Central Mail Centre and General Post Office Building

Provision of office space at CMC

5.9 The fifth floor of the CMC is mainly for office use (see Figure 10 in para. 5.2). It has a NOFA of 2,302 m². Details of the main usage are as follows:

- (a) 881 m²: office for the Mail Processing Division, Planning and Development Division and Retail Business Division. For these three Divisions, there are 20 cellular offices and open plan for 98 staff;
- (b) 267 m²: one conference room and two meeting rooms; and
- (c) 1,154 m²: other facilities such as staff rest rooms, workshop and store rooms.

5.10 Audit's site inspection in July 2015 revealed that nearly half (some 300 m²) of the open plan area (see para. 5.9(a)) was not in use (see Photographs 5 and 6 as examples), involving 46 work stations.

Photograph 5

Open plan of Mail Processing Division



Source: Photograph taken by Audit on 23 July 2015

Photograph 6

Open plan of Mail Processing Division



Source: Photograph taken by Audit on 23 July 2015

5.11 In response to Audit's enquiry, the HKP informed Audit in September and October 2015 that the open plan office area on the fifth floor fell within the expansion area of 7,600 m². For the 46 vacant work stations identified by Audit in July 2015, the HKP said that:

- (a) 14 work stations were intended for use by record staff of various operation units of the CMC and some supervisory staff. Some of these positions were vacant and recruitment was underway. The HKP expected that those 14 work stations would be occupied in 2016-17 (Note 47). Another two work stations were reserved for two vacant posts currently under review;

Note 47: *According to the HKP, four of the 14 posts involved were expected to be filled by 2016-17. The incumbents of the remaining 10 posts were temporarily stationed on other floors of the CMC in under-provided accommodation, and would be relocated to the fifth floor when the full team was in place.*

Management of Central Mail Centre and General Post Office Building

- (b) eight work stations would be taken up by staff of the Information System Services Division by December 2015 and two work stations were taken up by the staff of the Management Services Division. Six work stations were for use by staff of other Division/Sections/Offices who needed to work at the CMC from time to time;
- (c) five work stations were reserved for handling extra mail items during seasonal peaks;
- (d) five work stations were intended to meet future growth; and
- (e) four work stations were reserved for the project team of the reprovision of the GPO Building (see paras. 5.15 to 5.18).

5.12 Audit noted the HKP's planned usage of the identified vacant work stations. Audit considers that the HKP needs to closely monitor the usage to avoid these work stations being left vacant for a prolonged period.

Audit recommendations

5.13 **Audit has *recommended* that the Postmaster General should:**

- (a) **ensure that in future changes to accommodations reprovisioned from the IMC to the CMC are approved by the PVC in a timely manner; and**
- (b) **monitor the usage of work stations at the office area of the CMC to avoid prolonged vacancy.**

Response from the Government

5.14 The Postmaster General agrees with the audit recommendations. She has said that the HKP will ensure that it will seek the PVC's timely approval of future changes to accommodation reprovisioned from the IMC to the CMC. The HKP will also ensure that the work stations on the fifth floor of the CMC are put to gainful use as planned to meet the HKP's operational needs.

Reprovision of the GPO Building

5.15 The GPO Building is located at Connaught Place, Central (see Photograph 7). It is an eight-storey building providing accommodations for the GPO (counters, post office boxes and DO), Speedpost Section and HKP's Headquarters and various divisions (e.g. the External Affairs Division and the Financial Services Division). The Building was commissioned in 1976.

Photograph 7

GPO Building



Source: Photograph taken by Audit on 5 September 2015

5.16 The site area occupied by the GPO Building is 3,900 m². The Government started planning for the relocation of the GPO Building as early as in May 1985 after the expiry of a lease condition that restricted the height of the GPO site (Note 48). In the Director of Audit's Report No. 31 issued in October 1998, Audit reported on the Government's slow progress in the redevelopment of the GPO site to maximise its development potential.

Note 48: *In May 1970, in connection with the sale of the land lot to a private developer for building the Jardine House (which is adjacent to the GPO Building), the Government agreed with the lessee that for a period of 15 years from 1 June 1970, no part of any building erected between the land lot and the Victoria Harbour waterfront should have a height exceeding 36.6 metres.*

Latest developments

5.17 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 (Note 49) as soon as possible to increase the floor area of office and retail space in the core business district. In order for Site 3 to be developed in accordance to the Study's recommendations, the GPO Building now located at the southern part of Site 3 has to be reprovisioned. After taking into account the HKP's operational requirements, some district-tied facilities including the GPO counters and post office boxes, DO, Speedpost Section, etc., will be reprovisioned within the future development of Site 3, whereas the HKP's Headquarters and other divisions are being planned to be reprovisioned to a site in another district. The Government will fund the GPO reprovisioning project on a "square metre for square metre cost-neutral" basis.

5.18 Some 30 years have lapsed since the Government started planning for the relocation of the GPO Building and the GPO site has yet to be redeveloped (see para. 5.16). In response to Audit's enquiry, the HKP informed Audit that the project approach and programme for the reprovisioning of the GPO Building had been subject to the overall planning process of the New Central Harbourfront, the availability of sites for reprovisioning and the operational requirements of the HKP. The HKP had been working closely with the relevant B/Ds all along (e.g. on the identification of reprovisioning sites and the timing of vacating the existing GPO site), and had been making its best endeavour to take forward those tasks falling within its purview in support of the Government's overall project objective and project programme.

Note 49: *In 2007, the Planning Department commissioned the Urban Design Study for the New Central Harbourfront to refine the urban design framework and prepare planning/design briefs for eight key sites in the New Central Harbourfront. Site 3 is one of the key sites and it is located at the north of Statue Square.*

Need to utilise the available space at GPO Building

5.19 The GPO Building has a NOFA of 14,210 m². Following the relocation of the GPO sorting centre to the CMC (see Note 42 to para. 5.2), the HKP reprovisioned the Air Registered Section of the IMC and the Stamps and Philately Division to the GPO Building in May 2014 and May 2015 respectively (Note 50). Nevertheless, as at September 2015, the GPO Building has some 2,060 m² vacant space. Given that it could take several years before vacating the GPO Building, the HKP needs to monitor the usage of space at the GPO Building with a view to putting it into gainful use (e.g. by exploring the feasibility of relocating outstation offices to the GPO Building). In this regard, the HKP informed Audit in September 2015 that for the vacant area of the GPO Building:

- (a) some 880 m² was mainly used for staff passage and temporary storage of mail and could not be put to better alternative use;
- (b) some 710 m² was reserved for the Air Registered Section of the AMC. However, the relocation of the Section was deferred from early 2015 to early 2016 due to urgent building safety works at the GPO Building, which were targeted for completion in early 2016; and
- (c) for the remaining 470 m² (including 370 m² of ex-canteen — Note 51), the HKP planned to use it for office and storage purpose in early 2016 after the completion of building safety works.

Note 50: *The HKP informed Audit in October 2015 that it had formulated a plan to utilise the vacated space after the relocation the GPO sorting centre to the CMC. The HKP reprovisioned the Air Registered Section of the IMC as planned. In October 2014, upon receipt of an unexpected notice of non-renewal of the tenancy from the landlord of the premises which housed the Stamps and Philately Division, the HKP promptly adjusted the accommodation plan for the vacated space in the GPO Building and reprovisioned the Division to the GPO Building in May 2015 in order to achieve substantial rental savings.*

Note 51: *According to the HKP, it has changed the area reserved for canteen purpose to office use after three unsuccessful tender exercises in 2014 to find an operator for the canteen.*

Audit recommendations

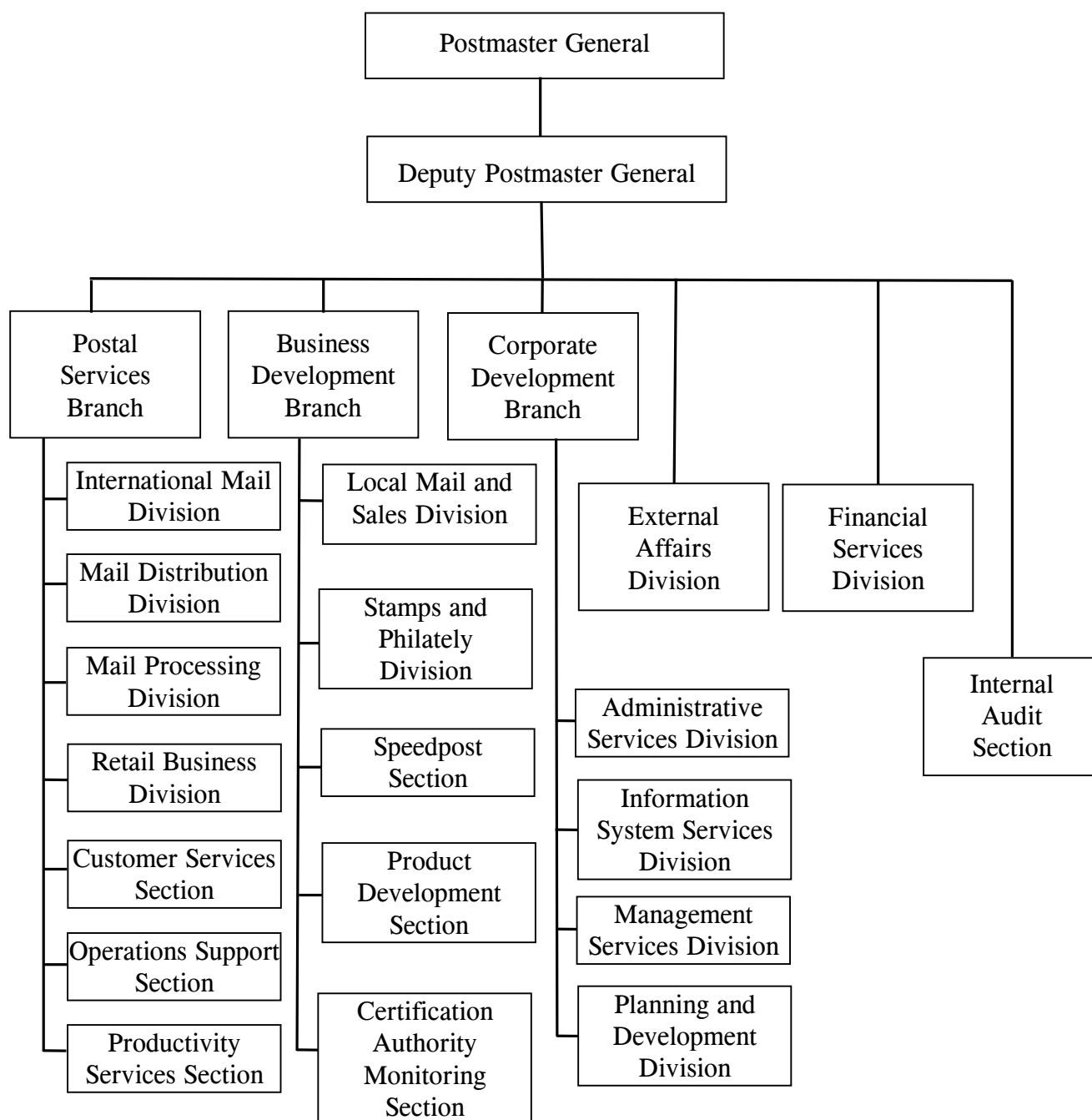
5.20 Audit has *recommended* that the Postmaster General should:

- (a) in collaboration with the relevant government B/Ds, take appropriate measures to facilitate the Government's project for the reprovisioning of the GPO Building; and**
- (b) monitor the usage of space at the GPO Building with a view to putting it into gainful use before its reprovisioning.**

Response from the Government

5.21 The Postmaster General agrees with the audit recommendations. She has said that the reprovisioning of the GPO Building is necessitated by the New Central Harbourfront project. The HKP has all along been working closely with relevant government B/Ds to facilitate the reprovisioning project by taking timely action on those tasks falling within its purview. The HKP will continue with such collaboration.

**Hongkong Post
Organisation chart
(31 August 2015)**



Source: HKP records

**Mail traffic by mail category
(2014-15)**

Mail category	Number of mail items (million)
(a) Local	1,038
(b) International	
• outward air	137
• outward surface	12
• inward air	22
• inward surface	3
Total for international mail	174
Total = (a) + (b)	1,212

Source: Audit analysis of HKP records

SoA of CMC approved by PVC in June 2010
(summarised by function)

Function	Facilities/usage	NOFA (m ²)	
Mail processing operation	Optical Video-coding Integrated Systems (12 sets)	8,740	
	Culler-Facer-Cancellers (three sets)	870	
	Manual segregation area	3,700	
	Loading/unloading platform	2,940	
	Video-coding desks	258	
	Storage	390	
	Other operations	384	
	Sub-total		17,282
Supporting	Office area	1,109	
	Electrical and mechanical office, store and workshop	372	
	Building Maintenance Office	70	
	Training room	100	
	Conference rooms (two)	90	
	Interview rooms (four)	31	
	Canteen	162	
	Security area	75	
	Pantries, rest rooms and outdoor sitting area	243	
	Server rooms (two)	259	
	Storage area	266	
	Sub-total		2,777
Other services	Dead Letter Offices (two)	369	
	Registered Letter Office	260	
	Local Consignment Office	135	
	Bank mail handling	95	
	Other operation offices	162	
	Sub-total		1,021
Total		21,080	

Source: Audit analysis of HKP records

Acronyms and abbreviations

AMC	Air Mail Centre
Audit	Audit Commission
B/Ds	Bureaux/departments
BST	Beat Survey Team
CMC	Central Mail Centre
CSB	Civil Service Bureau
CSRs	Civil Service Regulations
DOs	Delivery offices
DPm	Delivery postman/postmen
GLD	Government Logistics Department
GPA	Government Property Agency
GPO	General Post Office
HKP	Hongkong Post
IMC	International Mail Centre
m ²	Square metres
MDD	Mail Distribution Division
NCSC	Non-civil-service contract
NOFA	Net operational floor area
OTA	Overtime allowance
POTF	Post Office Trading Fund
PVC	Property Vetting Committee
SoA	Schedule of Accommodation
SPRs	Stores and Procurement Regulations
TOIL	Time-off in lieu