

# 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).

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### 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.