

Chapter 7

The outlook for the Licensed Post Office network

Introduction

7.1 The committee received many submissions from licensees who voiced concerns about the outlook for the LPO network. Many licensees argued that payments have been eroded over an extended period of time because of the indexing arrangements while costs have increased and the range of duties expected of licensees has expanded without adequate compensation. Individual licensees provided evidence about the viability of their LPOs and expressed disquiet about the integrity of the LPO network and its ability to maintain postal services into the future particularly in rural and regional areas.

Comments on viability issues from licensees

7.2 At a broad level, it is not apparent that the number of LPOs ceasing operations is increasing. Australia Post confirmed that out of almost 3,000 LPOs, only ten closed in the 2012–13 financial year and that, on average, about 10 to 15 post offices in the Australia Post network close each year, with about 300 changing ownership annually.¹

7.3 Nevertheless, the anecdotal evidence received by the committee indicates that there are significant viability issues in the LPO network with many other licensees submitting that they are struggling to stay afloat. In addition, there were comments that many closures of LPOs may be imminent if the core business model and remuneration structures for LPOs remain unchanged.

7.4 The following comments are a small sample of those received by the committee from licensees under financial stress:

In summary, I now view the decision to enter into this "partnership" with Australia Post to be one of the worst decisions of my life. I now hold an asset that has been devalued by the actions of an entity that I thought I could trust – and am being held to the terms of a 20 year old agreement to go on operating a business in an unsustainable manner.

Candidly, if Australia Post came to me tomorrow and offered to buy my license back I would accept in a heartbeat...²

7.5 Another licensee, who stated that they were not drawing a wage, commented:

I would be better off closing my doors and drawing the dole, much less stress with more income. At least then I would be free to start up an on-line business at home, taking advantage of the cheaper postage rates AP offer on-line to e-bay sellers, sending their local post office broke.³

1 Mr Ahmed Fahour, Australia Post, *Estimates Hansard*, 19 November 2013, p. 27.

2 *Confidential Submission 33*.

3 Name Withheld, *Supplementary Submission 63*, p. 1.

7.6 Some licensees indicated that, in order to continue the operation of their LPO they undertook a number of strategies including working a second job;⁴ not paying themselves a wage;⁵ not taking holidays as there are no funds for relief staff;⁶ and selling other assets or using personal finances.⁷ For example, one licensee stated:

We purchased the business in January 2010, using our superannuation and mortgaged our home, hoping that it would be a means to continue in the work force for a period of time. I have been forced to return to my previous occupation on a full time basis, to sustain us and try to eventually have a comfortable retirement. We presently have our LPO on the market as we can see no future in keeping it.⁸

7.7 Another licensee reported that they were handing in their licence as the business was no longer viable and no buyer could be found even though the LPO had been on the market for a substantial period of time. The licensee stated:

I have thoroughly enjoyed my 21 years of operating my LPO and when I handed back my licence to Australia Post in June this year it was with a heavy heart that I did so. I had no choice but to take this action as I had been putting private funds into my business for some time and I had tried to sell the Business for the past 5 years, but with no luck. There was not enough profit in it to be able to sell...

I found it most disheartening to think that after running a business for 21 years and giving good community service, that I leave this organisation in 2013 showing a net profit of \$22,000. That is a mere \$2,002.00 more than my first pay of \$ 19,998.00 way back in 1992.⁹

7.8 The tone of many of the submissions received from licensees was negative about the future of their business and the support that they received from Australia Post to continue in the sector. One licensee concluded:

Australia Post make my husband and I feel like they have all the power and have no regard for the fact we do not get paid or are grossly underpaid for the services we provide to make Australia Post huge annual profits, salaries and bonuses.

4 See for example, Mr Andrew Hirst, LPO Group, *Committee Hansard*, 4 March 2014, p. 9; Name Withheld, *Submission 34*, p. 3; Name Withheld, *Submission 89*, p. 1; Mr Peter Moody, *Supplementary Submission 131*, p. 1.

5 See for example, Name Withheld, *Submission 24*, p. 1; Name Withheld, *Supplementary Submission 63*, p. 1; Mr Neil Graham, *Submission 74*, p. 1.

6 See for example, Name Withheld, *Submission 44*, p. 4; Mr Kevin Nicholls, *Submission 53*, p. 3; Ms Margaret Fowler, *Submission 98*, p. 1.

7 See for example, Mrs Helen Bain, *Submission 19*, p. 3; Mr Ivor Ransom, *Submission 100*, p. 1; Ms Lyn and Mr Peter Goodlet, *Submission 163*, p.1; Mr Peter Moody, *Submission 131*, p. 1

8 Name Withheld, *Submission 34*, p. 4.

9 Name Withheld, *Submission 24*, pp 1–2

Why has Australia Post, as a government body, not recognised payments to LPO's were not keeping pace with the CPI and corrected the situation, this should be a part of their job and a part of their responsibility.

I just want Australia Post to return a true, fair and reasonable payment to the Licensees that provide a service to the community, especially in country areas, where a corporate office is not just around the corner.¹⁰

7.9 Many licensees who submitted to the inquiry argued that the current business model for licensees is not viable.¹¹ Mr Tony Buskariol from the LPO Group added the LPO Group's view:

...I can confirm that the business model in its current state is not sustainable. Most of us appear to be tipping in our own private funds to continue operating licensed outlets. If that was not the case, I think there would be quite a few of us who would be closing and the community would be missing out on the services available through the licensed post office network.

... I have a second job. I have a mortgage on my house for the business, so my interests are to make sure the business is profitable and to get paid fairly for what we do. We provide a very good service to the community. If we were paid fairly and appropriately for the services that we provided then licensed outlets would be profitable and a vibrant part of the community.¹²

7.10 However, not all evidence received by the committee supported the dire predictions of some submitters. Some licensees indicated that their business was providing good returns and income although most acknowledged that they had concerns about some issues, such as parcel volumes.¹³

7.11 In addition, Mr Ian Kerr, POAAL, commented that some of the statements related to the anticipated number of closures of LPOs were 'wildly exaggerated'.¹⁴ Mr Kerr also noted that licences are still being bought and sold for reasonable prices and that, although revenues had fallen, it wasn't necessarily the case the LPO profits had also fallen. But Mr Kerr indicated that the number of complaints received by POAAL about revenue and costs had increased over the last three to four years.¹⁵

7.12 Mr Terry Ashcroft, post office broker, also commented that, 'if we are fair, currently the majority of LPOs are still financially viable with some of the larger LPOs being very profitable'. However, Mr Ashcroft went on to state that profitability is under attack and being undermined constantly by Australia Post in many areas and,

10 *Confidential Submission 36.*

11 See, for example, Name Withheld, *Submission 172*, p. 3.

12 Mr Tony Buskariol, Licensed Post Office Group, *Committee Hansard*, 6 December 2013, pp 1-2.

13 See for example, Mr tony and Ms Noelene Brandi, *Submission 96*, p. 1; Ms Sue McNicol, *Submission 107*, p. 5.

14 Mr Ian Kerr, POAAL, *Committee Hansard*, 6 December 2013, p. 16.

15 Mr Ian Kerr, POAAL, *Committee Hansard*, 26 March 2014, p. 2.

'through its failure to be fair and reasonable regarding payment and treatment, Australia Post is destroying the business model of LPOs to a point where many LPOs could fail and some have'.¹⁶

7.13 Mr Ashcroft also provided information on the sale of rural LPOs:

It is now hard to sell any rural LPO especially LPOs in smaller rural towns where the Licensee accommodates the mail contractors. Prices of some LPOs have halved in these areas from the peak of 2007 and are back by 20 to 25% in a lot of city locations. Most if not all rural LPOs are suffering from gross underpayment with most at great risk of financial collapse. AP cannot continue to add unpaid work onto licensees and fail to update payments for mail management in line with at least inflation without the expectation that the owners of these LPOs will fail financially. Fairness has to be brought back into the equation and Australia Post needs to have a hard look at the incentives it is giving many areas of corporate Australia Post that has created the current situation.¹⁷

Response by Australia Post

7.14 Mr Fahour provided a number of comments in relation to LPO viability and level of payments. In the first instance, Mr Fahour commented that LPOs were private businesses, most with other sources of revenue, and that Australia Post had no knowledge of their profitability. In relation to the standalone LPOs, Mr Fahour stated:

For the ones that we have, what we cannot see is this. We pay them a stream, but we do not know what their rent is. We do not know how many people they employ. This is their own private business. We have no share in their business, so we do not actually even know what their P and L looks like. I do not know what tax they pay. I do not know how much they buy—¹⁸

7.15 Mr Fahour, in correspondence to the committee, expanded further and stated:

We have also taken steps to provide clarity around the relationship we have with our licensees and to highlight how as independent small business operators they have:

- purchased in most cases an underlying business from a party other than Australia Post – the value of that purchase taking into account in some form the associated income;
- voluntarily applied to be part of the Australia Post network and at their discretion choose to maintain this relationship;
- entered into the agreement with full knowledge of the applicable payment and contractual terms involved and providing a declaration they had sought independent legal and financial advice on these matters; and

16 Mr Terry Ashcroft, *Submission 94*, p. 3.

17 Mr Terry Ashcroft, *Submission 94*, p. 3; see also Mr BC Barger, *Submission 170*, p. 2.

18 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 26.

- responsibility for how they conduct their own business to which we provide in most cases, but one stream of revenue.¹⁹

7.16 At the November 2013 Supplementary Estimates Mr Fahour commented on the 'noisy minority' of licensees and stated that most retailers are experiencing commercial difficulties.²⁰

7.17 In response to concerns about LPO viability, Australia Post commissioned KPMG to undertake an assessment of the commercial performance of LPOs. The assessment was to examine the current commercial arrangements between Australia Post and licensees and factors impacting the commercial return achieved by LPOs. KPMG undertook this assessment by sampling LPOs which were representative of the LPO network.

7.18 The completed assessment was provided to Australia Post in July 2014. Mr Fahour commented that 'as confirmed by the recent independent assessment conducted by KPMG into LPO sustainability, the LPO network as a whole is not in crisis and licensees continue to receive a return in-line with comparative industry expectations for their business investment'.²¹

7.19 Mr Fahour also emphasised that Australia Post does not pass on to LPOs the financial losses incurred by Australia Post in its letters business. Mr Fahour reiterated this view at a number of hearings including at the November 2013 Supplementary Estimates:

One of the ways that we have supported these stores has been to shield them from the financial losses, which amount to approximately \$600 million over the past five years, in our 'reserved services' letters business while ensuring they share in our growth opportunities such as the many trusted services.²²

7.20 Again at the May 2014 Budget Estimates, Mr Fahour commented that the losses that Australia Post has are not being borne by the LPOs. With accumulated losses in the letter business of \$900 million and losses anticipated to be \$1 billion in the future, Mr Fahour stated 'one of our greatest sources of pride is we have been able to not impose that on the LPOs, not let them share in those losses'.²³ Indeed, Australia Post commented that:

It's worth noting that as Australia Post's losses in the Letters business have been getting worse, overall payments made to Licensed Post Offices has

19 Mr Ahmed Fahour, Australia Post, Response to LPO Group supplementary submission, dated 11 August 2014.

20 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 52.

21 Mr Ahmed Fahour, Australia Post, Response to LPO Group supplementary submission, dated 11 August 2014.

22 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 18.

23 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 107.

continued to grow at a compound annual growth rate of 1.8% over the past five years (\$324m in FY13 versus \$296m in FY08).²⁴

7.21 Mr Fahour also acknowledged the interrelationship between Australia Post and LPOs:

We have a mutual problem. Their problem is my problem, and I acknowledge that.²⁵

7.22 Further, Mr Fahour commented that unless Australia Post is able to modernise, find new streams of revenue, introduce fair pricing for products and services and recover costs, Australia Post will no longer be able to shield the LPOs or itself from the recurring losses in the reserved service.²⁶ Mr Fahour noted that the new corporate plan was being developed based on modernising and sustaining Australia Post. He commented that the plan 'is being built on the premise that we will still have 4,400 post offices over the entire planning period'. He concluded:

We are not building a corporate plan on the assumption that we are going to shut down these post offices. Therefore, we are building a plan to build the business and support the post office network. It is the bedrock of our postal service business. It is the bedrock of the communities. We have to develop a viable plan that keeps them going. That is what our plan will show, and that is what we are starting to outline here.²⁷

7.23 Mr Fahour acknowledged the importance of the LPO network: 'I can assure you we have no benefit in undermining our LPOs—and why would we? They help us meet our CSOs and they do provide a valuable service'.²⁸

Payment arrangements

7.24 As outlined in Chapter 6, LPOs receive payments from Australia Post through four streams: processing and delivery fees; commissions for trusted services; the sale of letter and parcel products; and, where applicable, some other subsidies, top-up payments and discounted merchandise available from Australia Post.²⁹

7.25 Australia Post commented on the payment structure and stated:

The LPO payment scheme is structured to provide licensees with an overall payment from Australia Post. The income for any individual licensee is subject to the mix of business within their LPO (Australia Post and non-

24 Australia Post, *Submission 8*, p. 17.

25 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 33.

26 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 107.

27 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 113.

28 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 30.

29 Australia Post, *Submission 8*, p. 36.

Australia Post) which will also be reflective of local customer demand and associated work effort.³⁰

7.26 Australia Post also noted that it considered that the optimal payment scheme aligned the interests of both parties in a way that encourages mutual growth, such as payments related to the volume of product sales.³¹

7.27 Australia Post described the payments structure as 'complex and inter-linked' which required 'individual payments to be assessed in the broader context'. Both the Basic Postage Rate (BPR) and the prices that Australia Post influences either directly (for example, parcels) or indirectly via commercial agreements between Australia Post and agency partners influence payments received by LPOs.³²

7.28 The LPO Arrangements Payment Schedule presents the payment rates for licensees. It is noted in the schedule that Australia Post's aim is to put in place an LPO Payment Scheme which will, on a continuing basis:

- (a) ensure that LPOs meet Australia Post's financial targets in their retail, mail processing and delivery activities;
- (b) provide a profitable and viable source of income for Licensees;
- (c) provide Licensees with an incentive to grow their business to the benefit of themselves and Australia Post; and
- (d) be based on objective and auditable data (e.g. avoiding the use of mail counts if at all possible).³³

7.29 The process for the updating of payment rates depends of the type of payment:

- rates indexed to the BPR are reviewed when the BPR changes and include payments for representation allowance, most delivery payments and some outward mail processing payments;
- rates indexed to Australia Post prices for other services/products are reviewed when these rates change and include money orders, change of address request, eParcel Case to Collect and FaxPost;
- rates indexed to the top increment of the PDO salary at the overtime rate are reviewed in June each year and relates to the mail service payment;
- rates for third party agency and StarTrack Express are reviewed each year and are based on Australia Post commissions; and
- the minimum rent subsidy amount is reviewed from time to time, based on the changes in the BPR.³⁴

30 Additional Estimates 2013, Australia Post, *Answer to question on notice*, No. 73.

31 Australia Post, *Submission 8*, p. 38.

32 Australia Post, *Submission 8*, p. 38.

33 Australia Post, *Licensed Post Office Payment Scheme*, p. 2.

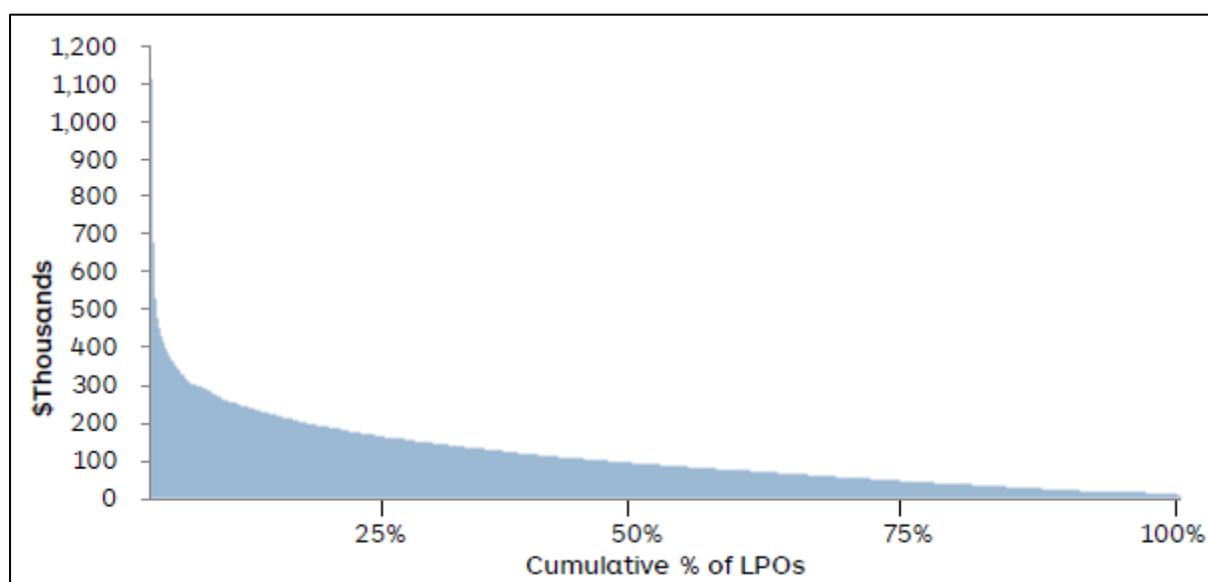
Level of payments made to licensees

7.30 In the 2012–13 financial year, Australia Post made \$324 million in payments to licensees across the four main payment areas: \$78 million in postage product discounts; \$123 million in processing and delivery fees; \$90 million in trusted services payments; and \$33 million in other payments, including merchandise. Of the \$78 million postage product discounts paid to LPOs, approximately \$29 million related to regulated products and \$49 million to non-regulated products.³⁵

7.31 Australia Post noted that total payments to licensees have risen by 1.8 per cent year on year since 2008.³⁶ With the increase in the BPR in March this year, payments to LPOs will also increase. Australia Post noted that payments to LPOs will increase by \$25 million per year.³⁷

7.32 Australia Post informed the committee that the level of payments per licensee is 'extremely broad' and provided information on the distribution of payments to licensees for the 2012–13 financial year.

Figure 7.1: LPO Annual Payment Distribution for the 2012–13 financial year



Source: Australia Post, *Submission 8*, p. 38.

7.33 The payments made to individual licensees range from \$1 million per outlet to \$10,000. Almost 60 per cent of LPOs receive more than \$70,000 per annum from the Australia Post portion of their business.³⁸ Australia Post indicated that, as a result of

34 Australia Post, *Licensed Post Office Payment Scheme*, p. 23.

35 Australia Post, *Submission 8*, p. 36.

36 Australia Post, *Submission 8*, p. 40.

37 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 75.

38 Australia Post, *Submission 8*, p. 37.

the increase in the BPR in March 2014, on average, payments will increase by \$8,500 per annum, on average, per LPO.³⁹

Adequacy of payment levels and recent initiatives

7.34 As noted in the comments above, many licensees argued that the level of payments is insufficient to sustain the LPO network and did not adequately recognise the work that they undertook on behalf of Australia Post.

7.35 Australia Post, in its submission to the committee stated that 'LPOs are fairly compensated for the work that they do with Australia Post'.⁴⁰ Mr Ian Kerr, POAAL, while noting that there were problems still to be addressed, also stated that:

POAAL is deeply concerned that the committee may have been given inaccurate and false information, in particular with regard to increases in LPO payments over the past five years...In addition to these increases, new transactions have been added regularly, including many identity transactions, or trusted services as Australia Post calls them. These are particularly worthwhile financially to post office licensees.⁴¹

7.36 However, Australia Post recently implemented a number of measures to assist licensees. Mr Fahour indicated, at the committee's December hearing, that Australia Post was seeking ways to support LPOs and provide immediate relief as 'they are a vital community asset, and we have a shared aspiration and a shared need for both of us to survive'.⁴² The first was the urgent and interim relief announced at the end of 2013. In recognition of the viability problems facing LPOs prior to Christmas 2013, Australia Post brought forward the payments for post office box services. Payments of \$35 million were brought forward from April to January 2014.⁴³

7.37 Mr Fahour further commented that Australia Post had established a 1-800 number call service to allow licensees seeking assistance over the Christmas period direct access to Australia Post staff.⁴⁴

7.38 In January 2014, Australia Post extended the trackable article fee to post office boxes and counter mail delivery points. Australia Post indicated that this would add a total of \$2.6 million per annum to LPO payments.⁴⁵

7.39 At the February 2014 Additional Estimates, Mr Fahour commented that 'dramatic action' had been undertaken over the previous 10 weeks and that:

39 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 75.

40 Australia Post, *Submission 8*, p. 41.

41 Mr Ian Kerr, POAAL, *Committee Hansard*, 26 March 2014, p. 1.

42 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 6 December 2013, p. 48.

43 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 17 March 2014, p. 1.

44 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 6 December 2013, p. 48.

45 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 17 March 2014, pp 1, 4; Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 81.

...it is quite remarkable what people with good intention can achieve in a short term. Let me just make this comment: \$35 million, a \$25 million increase, the new post office box scanning fee—and there are a range of other things that we are also going to do into the future...What I said—and this is quite important—was that this will provide immediate short-term relief but is not the answer to the long-term vexing issue: if we want this network to continue, something has to give here. If we want these people to do all of these things—and I have just said, for the first time since corporatised history, we are unlikely to even pay a dividend in the future. Where is it going to come from?⁴⁶

7.40 Licensees will also receive a payment of \$5 for each new account established under the MyPost concession program. Mr Fahour stated that this had produced \$1.5 million in new income in two months to establish new accounts.⁴⁷ In addition, the increase in the BPR in March 2014 added an additional \$25 million to payments for LPOs.⁴⁸

7.41 On 17 June 2014, Australia Post announced a package of initiatives 'to strengthen the vital regional and rural stores network'.⁴⁹ The package included:

- offering connection to Australia Post's electronic point of sale system (EPOS) for 432 LPOs that currently use manual processes;
- increasing the minimum guaranteed annual payment for LPOs and introducing a minimum payment for community postal agencies (CPAs);
- increasing payments for providing working space to mail and parcel contractors;
- increasing payments for representing Australia Post to the local community; and
- removing the EPOS transaction shortfall fee.

7.42 Australia Post stated that the initiatives will contribute \$40 million per annum in addition to around \$320 million already paid annually.⁵⁰

Comments related to recent initiatives

7.43 The committee received responses to the initiatives introduced by Australia Post to assist licensees. The LPO Group commented on the advance payment of post office box payments under the urgent and interim relief initiative. While welcoming the advance payment, the LPO Group went on to note that at the same time Australia

46 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 125.

47 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 81.

48 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 81.

49 Australia Post, 'Australia Post strengthens regional and rural support', *Media Release*, 17 June 2014.

50 Australia Post, 'Australia Post strengthens regional and rural support' *Media Release*, 17 June 2014.

Post changed its trading account terms and 'many licensees were obliged to pay a substantial portion of the advance payment back to Australia Post, to keep their stocks available'.⁵¹

7.44 The LPO Group also acknowledged that the rural sustainability package will improve the outlook for manual post offices. However, the LPO Group went on to note that the majority of LPOs will only gain the additional 20 per cent increase in the representation allowance.⁵² The LPO Group also noted that in many cases the increases in payments have been already been absorbed through increases in the basic wage, increased superannuation and annual rent increases.⁵³

7.45 Licensees also provided comments in relation to the benefits that would be received through the rural sustainability package. One licensee commented:

When Mr Fahour announced in the last Senate estimates that he was soon to release the Rural rescue package I was elated with excitement and thought Australia Post had finally heard our calls for help. I was to be bitterly disappointed. With the media release I realised my office only qualified for one of the five points. The increase in the representation allowance was all I qualified for, as so for a majority of us. That equates to a whopping \$184.00 per annum or \$3.54 per week.⁵⁴

7.46 The committee also received a comment from a licensee that 'some of the rates have to go to 3 decimal points to show an increase of 1 cent – not even legal tender'. The committee notes that this applied to certain bill payments.⁵⁵

7.47 Another licensee welcomed in the increases but stated that they would still not be enough to sustain their business. For example, the licensee indicated that they received an increased payment of \$35.83 per month for providing working space for two mail contractors while rent has increased by \$44 per month from the being of the year. Thus the licensee is still behind by \$9 per month.⁵⁶

7.48 Similarly, a rural licensee stated that his LPO would benefit by just over \$1,200 per annum, which the licensee described as 'underwhelming'. The licensee went on to comment that current business viability was not restored nor were accumulated losses addressed.⁵⁷

Payments linked to the Basic Postage Rate

7.49 With the increase in the BPR from 31 March 2014, many of the payments received by LPOs have increased. However, the committee received evidence from

51 LPO Group, *Supplementary Submission 65*, p. 3.

52 LPO Group, *Supplementary Submission 65*, p. 7.

53 LPO Group, *Supplementary Submission 65*, p. 1.

54 Buladelah Licensed Post Office, *Submission 180*, p. 3.

55 Name Withheld, *Supplementary Submission 95*, p. 1.

56 Name Withheld, *Supplementary Submission 21*, p. 1.

57 Name Withheld, *Submission 194*, p. 1.

licensees which pointed to continued concerns about the indexation of payments linked to the BPR.

7.50 Many of the payments made to licensees are linked to the BPR, including the mail management fee.⁵⁸ Of the \$324 million that Australia Post paid in 2012–13 to licensees, approximately \$200 million was linked to the BPR.⁵⁹

7.51 Mr Fahour commented that, originally, the LPO framework was designed to link two-thirds of the payment to a stamp price.⁶⁰ Mr Fahour noted that over the last 20 years stamp prices have gone up three times, which represents a 33 per cent increase in the BPR when inflation is about 75 per cent and other costs have gone up 100 per cent over that period. Thus 'because successive governments have not allowed the stamp price to catch up with inflation' Australia Post, post offices and licensees have been adversely affected.⁶¹

7.52 Mr Fahour went on to acknowledge that the lack of increase in BPR was a problem:

If we are to save these post offices—or that aspect of their business; I cannot save the other parts of their business because that is none of my business—we do need to review this issue and we have been in dialogue with POAAL, who represent the vast majority of these people, to say we believe changes are needed because they need to be remunerated for the cost of living pressure.⁶²

7.53 However, Australia Post noted that some other payments were not linked to the BPR and that these had increased over time. Australia Post stated that the percentage discount on stamp purchases has not been varied despite higher per-article transportation/processing/delivery costs. In addition, it noted that the main management fee has not been adjusted despite the significant reduction in the number of letters per delivery point.⁶³

7.54 Many submitters commented on the lack of increases in the BPR. Most pointed out that the increases were substantially less than the CPI and thus those

58 The mail management fee is an annual per-delivery point payment associated with the operation of mail delivery staff from the LPO and covers activities such as handling customer inquiries, preparing statistics relating to mail delivery and the delivery of carded articles. The mail management fee is not associated with number of postal items processed by the LPO.

59 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 29.

60 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 52.

61 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 29.

62 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 52.

63 Australia Post, *Answer to written question on notice*, No. 34.

payments linked to the BPR were drastically underpaid over a long period of time.⁶⁴ The LPO Group contended that the average LPO is underpaid 30 to 40 per cent by Australia Post for the work provided under the LPO Agreement.⁶⁵

7.55 While the LPO Group welcomed the increase in the BPR, it stated that it will convert, on average, to between a five and eight per cent increase in LPO returns depending on the percentage of mail service provided from the outlet.⁶⁶ Mr Andrew Hirst, LPO Group, commented that, in relation to his LPO, he would receive a 5.65 per cent increase and that an increase of 30 to 35 per cent was required to ensure the sustainability of LPOs.⁶⁷

7.56 POAAL noted that the decision to link payments to the BPR was taken during the initial formulation of the LPO model in the 1990s, and that proposals to change this system have not been successful:

One of the guiding principles when preparing the new LPO payment scheme was to link payments to indices in order to avoid having to renegotiate all LPO fees and payments every year. Australia Post and POAAL eventually settled on linking certain mail payments to the BPR. Until that point, the BPR had regularly risen.

On several occasions, POAAL proposed that the link between certain mail payments and the BPR be broken and be replaced by either CPI or a percentage, whichever was the higher. Each time, this proposal was rejected by Australia Post, even after the Federal Government froze the price of the postage stamp.⁶⁸

7.57 The committee notes that Australia Post commented on the linkage between payments and the BPR and the possibility of reassessing this linkage:

The payment scheme that underpins the LPO Agreement provides a range of discounts, commissions and fees for providing goods and services on behalf of Australia Post.

When the payment scheme was originally introduced a number of delivery related payments were linked to adjustments in the BPR due to the relationship of the work required with the letters product.

Due to the recent changing nature of Australia Post's business (ie a reduction in letters and increase in parcels) there may now be opportunities to reassess selected payments and better align them to licensee's costs and Australia Post's business drivers for a mutually beneficial outcome.⁶⁹

64 See, for example: Ms Angela Cramp, Licensed Post Office Group, *Committee Hansard*, 6 December 2013, p. 3; Name Withheld, *Submission 176*, p. 1.

65 LPO Group, *Supplementary Submission 65*, pp 5–6.

66 LPO Group, *Supplementary Submission 65*, p. 5.

67 Mr Andrew Hirst, LPO Group, *Committee Hansard*, 4 March 2014, pp 2, 9.

68 POAAL, *Submission 9*, p. 4.

69 Australia Post, *Answer to written question on notice*, No. 16; see also Additional Estimates 2014, *Answer to question on notice*, No. 65.

7.58 In addition, in correspondence to the committee, Mr Fahour commented that Australia Post was looking to identify alternative benchmarks to price increases in delivery compared to the current methodology tied to the BPR.⁷⁰

Future structure of the postal network

7.59 The committee received little evidence on whether there are now too many post offices as a result of the changing postal environment and increased use of digital means of communication. However, those submitters that did comment on this issue pointed to instances where there were a large number of post offices within a small area particularly in metropolitan areas. For example, Mr Buskariol, LPO Group, stated that there were ten post offices within 15 kilometres of his LPO.⁷¹

7.60 The LPO Group also commented on the possibility of rationalisation of the network in metropolitan areas and stated that:

We see that possibly there is a rationalisation of the network. There are possibly licensed post offices that need to be exited, and I am sure that there are licensees who would accept that. That is something that needs to be addressed.⁷²

7.61 In addition, some licensees commented that if there were to be a rationalisation of LPOs, Australia Post should buy back licences and that the value should not be based on the present value which was viewed as being undermined by Australia Post's action in relation to payments.⁷³

Committee comment

7.62 Australia Post is not a standalone organisation – the postal network is composed of small business operators, be they LPOs, community postal agencies or franchisees. Thus, the challenges facing Australia Post are also the challenges of these businesses and the committee considers that they must be part of the solution to ensure the long-term sustainability of the postal network.

7.63 The committee acknowledges that LPOs make their own business decisions in relation to non-Australia Post services and products to the extent allowable under their LPO Agreement.

7.64 That being said, the foundation of the LPO network is the provision of postal services. LPOs rely on the payments provided for in the LPO Agreement as remuneration for the postal services they provide on behalf of Australia Post and the Australian community. In doing so, they enable Australia Post to meet its community service obligations as contained in the *Australian Postal Corporation Act 1989*.

70 Mr Ahmed Fahour, Australia Post, Response to LPO Group supplementary submission, dated 11 August 2014.

71 Mr Tony Buskariol, LPO Group, *Committee Hansard*, 6 December 2013, p. 3.

72 Ms Angela Cramp, LPO Group, *Committee Hansard*, 6 December 2013, p. 3.

73 Name Withheld, *Submission 52*, p. 4.

Without LPOs, as well as community postal agencies and franchisees, it would be impossible for Australia Post to meet these obligations.

7.65 The committee also notes that the LPO Agreement establishes the obligations on LPOs to deliver services and the level of compensation for postal and other services provided on behalf of Australia Post. Many of the payments received by licensees are linked to the BPR and others are set by Australia Post. This is a significant matter: it cannot be said that licensees act independently in the delivery of postal services or that they have control over the level of compensation they receive for this work.

7.66 It is evident to the committee that linking many payments to the BPR has significantly added to the erosion of the financial position of LPOs as the BPR has not increased in line with the CPI. The BPR is now significantly lower than it should be if CPI increases are taken into account and therefore is not adequate to ensuring the financial viability of the LPO network.

7.67 There are a number of reasons for the lack of adequate increases in the BPR including various policy considerations taken into account by previous governments and Australia Post. However, in not pursuing increases in the BPR, there has been a significant opportunity cost to the LPO network.

7.68 In addition, the committee considers that, even though LPOs have been assisted by some initiatives, a rationalisation of the LPO network, as well as the corporate postal network, may be necessary in the longer-term to maintain the viability of postal network. The committee's Recommendation 4 addresses this issue.

