



Australian Government

Australian Government response to the
Environment and Communications Legislation Committee
report:

Performance, importance and role of Australia Post in
Australian communities and its operations in relation to
licensed post offices

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Introduction

On 14 November 2013, the Senate referred the following matters to the Environment and Communications Legislation Committee for inquiry and report:

- a. the overall performance, importance and role of Australia Post in Australian communities, and the challenges it faces in the immediate and longer term;
- b. the operations of Australia Post in relation to Licensed Post Offices (LPOs), with particular reference to:
 - i. the importance and role of the LPO network in the Australian postal system, with particular reference to regional and remote areas;
 - ii. the licensing and trading conditions applicable to LPOs, including the Community Service Obligations, and any effects these may have on operating an LPO business;
 - iii. marketing, retail and trading arrangements between Australia Post and LPOs and other entities; and
 - iv. any related matters.

The Committee received 213 submissions from a wide range of interested stakeholders including individuals, licensee representative groups, post office licensees and franchisees, government agencies, unions and community organisations. Five public hearings were held in Canberra and Adelaide.

The Final Report was tabled on 24 September 2014 (refer to www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Australia_Post_in_Australian_communities). The report contains eighteen recommendations as well as Labor Senators' Additional Comments with one further recommendation.

The Australian Government has considered the Committee's report and is pleased to provide the following response.

Context

Under the *Australian Postal Corporation Act 1989*, Australia Post is responsible for the day-to-day running of the organisation, including all decisions relating to its operational network. As a Government Business Enterprise, Australia Post does not receive any funding from taxpayers and, as far as practicable, it is required to perform its functions in a manner consistent with sound commercial practice.

Australia Post and post office licensees are responding to the structural decline of traditional postal services as people increasingly choose to communicate and access services over the Internet. Australians are sending one billion fewer letters today than they were in 2008, with the enterprise making a loss after tax of \$222 million (\$352 million before tax) in 2014-15, the first since corporatisation. Losses in letters are now overwhelming profits in parcels and without change, total losses were forecast to reach \$6.6 billion over the next decade.

While Australia Post has been able to offset letters losses with profits from other areas of the business, this strategy is not sustainable. Australia Post is facing intense competition from global courier companies and can no longer afford to subsidise letters losses with parcels profits. To do so would risk growth and jobs.

Without reform, many Licensed Post Offices (LPOs) would be unable to remain financially viable and would be forced to close. This would have a devastating impact on the post office network – LPOs account for 65 per cent of all post offices, including more than 1,600 outlets in rural and remote communities across Australia. Reform is essential to ensuring that LPOs remain open.

The Government is committed to stemming the growing and accelerating losses in letters to ensure that Australia Post can maintain a sustainable postal service. This includes maintaining Australia Post's extensive post office network and supporting the viability of LPOs in communities across Australia. That is why, on 3 March 2015, the Government announced reforms to Australia Post's regulatory framework to enable it to reform its business.

Australia Post will introduce a two-speed letters service comprising Priority and Regular speeds. Regular letters will be delivered on average two days slower than the Priority service, which will maintain the existing delivery timetable, and posties will continue to deliver mail five days a week.

Australia Post will also seek to recover the costs of delivering Regular letters by increasing the Basic Postage Rate (BPR), which remains subject to Australian Competition and Consumer Commission (ACCC) pricing oversight. This means that any price increase on the Regular service will be subject to an ACCC assessment to determine that the price of the Regular stamp reflects the efficient cost of providing the service. The ACCC is also required to assess any proposed price increases to the Priority service where its price rises above 150 per cent of the Regular service price.

To mitigate the potential impact price rises may have on consumers, Australia Post will retain the Concession rate stamp at 60 cents for 5.7 million concession card holders and freeze the Christmas rate stamp at 65 cents for all Australians.

Reform will significantly improve the financial viability of LPOs, with every 10 cent increase in the BPR contributing approximately \$25 million in new payments to licensees.

The Government's focus is on ensuring that Australia Post can deliver a sustainable mail service, while supporting vulnerable consumers and maintaining an extensive post office network across Australia. This will only be possible if Australia Post reforms its business.

Australia Post has already announced (on 7 June 2014, 21 October 2014, 15 December 2014, 13 May 2015 and 17 September 2015) a substantial number of measures in response to the

Committee's inquiry and recommendations. Relevant initiatives are highlighted throughout this response.

Australia Post has stated that its proposed increase to the BPR to \$1, combined with the initiatives it has announced over the last two years, would mean around \$125 million extra in annualised payments to LPOs. This represents a substantial boost to support for post office operations.

The Government welcomes the measures announced by Australia Post to improve the sustainability and effectiveness of the postal network.

Australian Government Response to the Committee's Recommendations

1. The Committee recommends that Australia Post be required to submit notification of changes to the price of business mail services to the Australian Competition and Consumer Commission.

In October 2011 the former government removed the price notification requirement on Australia Post for Pre-Sort Letter Services (Section 95X of the *Competition and Consumer Act 2010*). This reduced the regulatory burden on Australia Post imposed through an ACCC notification process, providing the flexibility to adapt services to market and consumer needs in a timely manner.

Under the postal reforms announced by the Government, a price notification will be required for any proposed increases to the Regular Letter Service as well as for any proposed price rise that increases the postage rate for the Priority service above 150 per cent of the value of the Regular service. Prices for the standard Regular and Priority letter services act as a ceiling for the equivalent business mail services. The price of Pre-Sort letters must be below the standard rates as under sections 32A and 32B of the *Australian Postal Corporation Act 1989* users of a bulk interconnection service (which includes pre-sort letters) should receive a rate reduction.

Regulations made under section 32B of the *Australian Postal Corporation Act 1989* allow the ACCC to enquire into disputes about the terms and conditions, including price of access, to Australia Post's bulk mail services. The intent of these provisions, as stated in the explanatory memorandum to the Postal Services Legislation Amendment Bill 2003, is to ensure that 'persons who use bulk mail services receive fair and reasonable terms and conditions in relation to the supply of those services'. No formal dispute notifications have been lodged with the ACCC to date.

In addition, if a bulk mail customer considers that the discount offered by Australia Post does not sufficiently recognise the costs they incur in preparing and lodging mail for processing, the customer has the option to shift to (non-discounted) consumer mail where such costs are borne by Australia Post.

2. The committee recommends that the Minister for Communications undertake a thorough examination of cost allocation within Australia Post and report back to the committee.

The ACCC undertakes an annual cross subsidy assessment of Australia Post's reserved letter services. These reports are available at www.accc.gov.au/publications/assessing-cross-subsidy-in-australia-post and over a number of years have reported that the ACCC is

satisfied that Australia Post's reserved services, at an aggregate level, were not a source of subsidy for its non-reserved services. Rather, reserved services has been a potential recipient of a subsidy since 2009-10. This was again confirmed in the report for 2013-14 which was released in April 2015.

The ACCC has also completed a limited review of Australia Post's cost allocation methodology (CAM) in the context of its assessment of Australia Post's 2014 price notification, available at www.accc.gov.au/regulated-infrastructure/postal-services. This review focused on the allocation of non-operational (indirect) costs to reserved services, following an earlier review which focused on direct costs. This review did not identify any systematic bias in Australia Post's CAM that would likely lead to a higher allocation of non-operational costs to reserved services.

Under the postal reforms announced by the Government, the ACCC will continue to play an important role in reviewing certain price increases proposed by Australia Post. In line with past practice, the ACCC may choose to consider Australia Post's CAM in the context of any future price notifications received. ACCC decisions on Australia Post price notifications are made available on the ACCC's public register.

3. The Committee recommends that greater commercial freedoms for Australia Post should only be considered if this provides support for the delivery of the community service obligations through a viable Licensed Post Office network.

The reforms to Australia Post's regulatory requirements are critical to the future viability of the post office network. No changes are being made to the number of retail outlets, and a more financially sustainable letters service provides Australia Post with much greater flexibility to increase payments to post office licensees.

Under section 27 of the *Australian Postal Corporation Act 1989*, Australia Post is required to meet letter service community service obligations, including that the service is reasonably accessible to all people in Australia and that it reasonably meets the needs of the Australian community. Meeting this obligation requires a viable post office network.

The Government will continue to work closely with Australia Post to enable it to modernise its business so that it can remain financially sustainable and self-funding, and has the ability to continue to deliver its community service obligation.

4. The committee recommends that the Commonwealth Government immediately commission an independent review of the community service obligations contained in the Australian Postal Corporation Act 1989 and associated regulations.

In undertaking this review, the committee further recommends that:

- the future of mail delivery services be assessed;
- the number of retail outlets required in the network be assessed;
- the effects of any changes to the community services obligations on Australia Post employees, Licensed Post Offices, Community Postal Agencies, franchisees and mail contractors be investigated; and

- **consideration be given to the needs of remote, rural and regional communities particularly where other service providers have ceased to operate.**

Both the Government and Australia Post have already commissioned a number of independent reviews.

Independent analysis undertaken by the Boston Consulting Group (BCG) for the Government found that:

- it is not feasible to rely on the fully competitive parcels business to fund losses in the letters monopoly;
- most people are over-serviced under the current letter delivery model, with surveys suggesting that two thirds of receivers use their mail less than twice a week, half would accept three day delivery and few would be willing to pay to maintain five day delivery;
- the letters business has ~80 per cent fixed costs, with mail forecast to decline by eight to 11 per cent per annum to 2019-20; and
- without reform the letters business is forecast to incur \$12.1 billion in losses, while the enterprise is forecast to lose \$6.6 billion to 2022-23.

The Australian and International Postal Services Overview developed by the BCG was released on the Department of Communications website in June 2014.

The Government is committed to stemming the growing and accelerating losses in letters to ensure that Australia Post can maintain a sustainable postal service. This includes maintaining Australia Post's extensive retail network and supporting the viability of LPOs in communities across Australia, in particular in regional areas where more than 2,500 LPOs are such an important part of local communities.

The postal reforms announced by Government on 3 March 2015 are critical to strengthening the viability of Australia Post into the future. The reforms recognise the ongoing importance of an accessible and equitable mail service to all Australians, and the need for more flexible regulatory arrangements that enable Australia Post to adapt to changing consumer demand. Further detail on the postal reforms is available at www.communications.gov.au/post and www.auspost.com.au/media/documents/Reform-Fact-Sheet.pdf.

The underlying pressures on Australia Post's business will continue and the Government will regularly assess Australia Post's performance in the light of the announced changes

- 5. The committee recommends that, before further or more complex trusted services are provided through the postal network, the Minister for Communications consult Australia Post and relevant government agencies with a view to determining the requirements for the provision of those services.**

The committee also recommends that Australia Post undertake consultation with all licensee representative groups in regard to any additional requirements related to an expansion in the delivery of trusted services, including training, staffing, shopfront space, technology and remuneration.

The Government is supportive of Australia Post's efforts to identify appropriate new commercial products and services to continue to grow the enterprise and offset escalating losses in the regulated letters business.

Australia Post will continue to compete on a commercial basis in relation to the provision of services on behalf of Government. In addition to the core product offering of mail, parcels, courier and mailroom services, Australia Post provides trusted services to a substantial number of principals, both from a Financial Services and an Identity Services perspective. These include:

Federal Government

- Tax File Number application
- Passports
- Voting forms
- Parcel/letter security screening
- Bill Payment
- On-line forms data capture & processing

State Government

- Driver's licence, registration and licence renewal
- Boat and fishing licences
- Payment of e-toll and fines
- Payment of bonds and rent
- Birth, death and marriage certificates
- Fair Trading National Parks permits
- Public transport tickets
- Working with children licences
- Criminal history checks
- Firearm licensing
- Liquor and gaming licences
- High risk work licences
- Maritime security licencing
- Voting forms

Local Government

- Bill payment (parking fines and other fines)
- Locked Box and cheque processing
- Design and printing
- Database management

- Packaging material

The Government expects that prior to Australia Post offering services on behalf of a government agency, both Australia Post and the relevant agency satisfy themselves that Australia Post is able to meet the requirements for the particular service on a commercial basis, and to appropriate quality standards.

Australia Post is in regular discussion with licensees about the service and product offerings available to clients. The choice of the location of the service and product offer is often the decision of the client for which Australia Post is an agent.

Australia Post's regular engagement with licensee representative groups also provides an ongoing mechanism for consultation on issues relating to the delivery of trusted services.

6. The committee recommends that the Minister for Communications establish a formal postal network strategy group that engages all stakeholders in the development of a comprehensive strategy to inform changes to the Australia Post network in the face of emerging challenges.

The committee further recommends that a broad community consultation program be implemented.

The Government considers that Australia Post should take primary responsibility for communicating with its stakeholders about strategies to address its business challenges.

Under section 23 of the *Australian Postal Corporation Act 1989*, it is the role of the Australia Post Board to:

- decide the objectives, strategies and policies to be followed by Australia Post; and
- ensure that Australia Post performs its functions in a manner that is proper, efficient and, as far as practicable consistent with sound commercial practice.

Australia Post has announced the establishment of a new industry working group to support the implementation of letters regulatory reform and consider other strategic issues facing the postal sector. The group will be independently chaired by former Victorian Senator Helen Kroger, and includes representatives from the printing industry, mailhouses, LPO network and employee unions.

Australia Post has also undertaken a coordinated consultative and education process with the community and other important stakeholders, which has included the following:

- a national marketing and advertising campaign *Your Post is Evolving*, across major metropolitan and rural media, inviting Australians to Join the Conversation on the National Conversation Portal;
- a National Conversation website where members of the community can view information, videos and fact sheets about "The Post of Tomorrow" as well as participate in a discussion forum, ask a question or complete a survey. More than 127,000 unique visitors have logged on to the site, with over 35% of these having downloaded information or participated in a survey;

- a major media campaign based around a series of public and media appearances by the Managing Director & Group CEO with support from the Chairman;
- community discussion groups – quarterly forums in nine locations involving deep engagement with these groups on a range of topics to gain their feedback – mix of inner metropolitan through to remote locations across the country;
- local community engagement – getting out in communities across Australia to gain the community's views on what they are looking for from Australia Post. This includes Listening Posts outside post offices, community leader roundtables and local media interviews. As at 11 June, Australia Post had held 190 community events in 159 towns covering 97 electorates;
- engagement with Members of Parliament – briefing MPs about the case for reform and inviting them to participate in the community visits;
- LPO engagement – ongoing communications with licensees through their representative groups, a quarterly licensee publication, annual conference and the Licensee Engagement and Exchange program, tailored bulletins around key announcements or events such as Australia Post's annual results release;
- employee engagement – regular employee bulletins and Australia wide face-to-face roadshow sessions have been held to ensure employees are kept informed of what is happening and what change will mean for them; and
- union engagement – regular consultative forums with the unions have been held and will continue to occur.

In addition, Australia Post has an external advisory group of 10 individuals – the Stakeholder Council - whose role is to help Australia Post improve their communication and engagement with stakeholders. Members have experience in small and medium business, industrial relations, direct marketing and corporate responsibility.

On 15 December 2014 Australia Post announced the establishment of a new independently chaired LPO forum of licensee representative bodies, to address a number of specific challenges facing the LPO network. The forum is comprised of the Australia Post Licensee Advisory Council (APLAC), the Licensed Post Office Group (LPOG) and initially the Post Office Agents' Association Limited (POAAL). The LPO forum has progressed a number of important areas of work, particularly the independent review of LPO payments (see response to recommendation 17).

Australia Post also continues to engage directly with all licensee representative groups.

7. The committee recommends that, at the request of any recognised association, Australia Post be required to renegotiate the terms and conditions of an LPO Agreement.

The LPO Agreement is a commercial agreement between Australia Post and its licensees.

All LPO agreements have the same general clauses. However, to accommodate local circumstances the current arrangements allow for special conditions to be included in

individual agreements. This provides a practical way for Australia Post to negotiate the terms and conditions of approximately 3000 individual licensees.

Current arrangements ensure that there is an appropriate level of consistency for both licensees and Australia Post in the application of contract and payment conditions. Changes to these arrangements would increase complexity and costs for both licensees and Australia Post.

As a result of the Senate Inquiry Australia Post has expanded its consultative processes to now recognise LPOG as well as POAAL. As such Australia Post will consult with each of the licensee representative bodies on any changes they may wish to propose to the terms and conditions of the LPO Agreement. In assessing any proposal a range of factors will be considered including the views of the alternate representative body.

- 8. The committee recommends that Australia Post capture information relating to 'issues requiring attention' raised under the dispute resolution process in order to provide earlier identification of systemic problems.**
- 9. The committee recommends that the Australia Post dispute resolution process should be amended to provide for a more streamlined process.**
- 10. The committee recommends that Australia Post provide further information to licensees and franchisees on the alternative dispute resolution processes available under the Franchising Code of Conduct.**

Australia Post has worked with POAAL and LPOG to update the dispute resolution process for licensees.

The revised dispute resolution arrangements, which are intended to take effect by the end of 2015, will provide licensees with a more streamlined process. It includes a new mechanism to capture dispute data early to enable Australia Post to identify any systemic issues relating to the LPO network. It also includes advice to licensees on dispute resolution processes available under the Franchising Code of Conduct.

- 11. The Committee recommends that the definition of 'Association' in the LPO Agreement be amended to include, in addition to POAAL, other licensee representative groups including but not limited to the LPO Group.**

Australia Post has amended the definition of 'Association' in the LPO Agreement to mean any licensee representative group with whom Australia Post has a consultative agreement which may include, but is not limited to, POAAL and the LPOG. This followed a formal consultation process with POAAL, as required under previous arrangements.

- 12. The committee recommends that Australia Post as a matter of urgency, reassess post office box payments to licensees to ensure that they reflect the true costs borne by the licensees in providing this service.**
- 13. The committee recommends that Australia Post review parcel storage requirements in Licensed Post Offices with a view to providing payments for those licensees who incur additional storage costs.**

- 14. The Committee recommends that Australia Post review the margins on postal products it sells to licensees with a view to ensure that margins are in line with commercial practice.**

See response to recommendation 17.

- 15. The Committee recommends that Australia Post allow for the return of unsold and out-of-date stamps by licensees and franchisees.**

Postage stamps do not have a use-by date and can continue to be sold beyond a particular stamp issue period. For philatelic products such as first day covers and stamp packs that do have a limited issue period, return arrangements currently exist. More generally, LPOs are responsible for managing their inventory and for ensuring that the supply of stock, including stamps, meets consumer demand. In the event that an LPO does accrue excess inventory, arrangements can be entered into with Australia Post on a case-by-case basis.

LPOs were entitled to receive expedited credit to their January statements for returned excess 2014 Christmas Postage stamps.

Return arrangements were discussed and agreed with licensee representative groups.

- 16. The committee recommends that Australia Post ensure all employees, in the relevant areas of its corporate network, understand Australia Post's rules and behavioural expectations in relation to the transfer of business from Licensed Post Offices to Corporate Post Offices and that 'poaching' and other predatory behaviour is unacceptable.**

On 1 December 2014, Australia Post implemented a revised process outlining how potential customer transfers from LPOs are to be managed. This includes updated internal processes for how Australia Post communicates and consults with licensees with regard to customer mail pick-ups and lodgement point changes, as well as introduction of a customer transfer payment in the event of a transfer initiated by Australia Post of a charge account customer currently lodging at a LPO.

- 17. The committee recommends that the Minister for Communications, as a matter of urgency, commission an independent audit of the activities undertaken by the Licensed Post Office network specifically to determine the validity of claims made by licensees that payments made under the LPO Agreement are not fair or reasonable.**

The committee recommends that where a payment is found to be not fair or reasonable, that a study should be conducted to determine what an appropriate payment rate should be.

In response to this recommendation, Australia Post, in partnership with licensee representative groups APLAC, LPOG and POAAL, commissioned an independent review to determine whether payments to LPOs are fair and sufficient for licensees to recover their costs. The review considered 17 key service lines including parcels, counter mail, PO Boxes, photos, identity services and Post Billpay.

The review was finalised in May 2015 and the findings have been made available to all licensees. A copy of the report is available at

<https://auspost.newsroom.com.au/Content/Home/02-Home/Article/Partners-in-Performance-Report-into-Licensed-Post-Office-network/-2/-2/6038>

The review found that while Australia Post is adequately remunerating licensees for most transactions, LPOs are being underpaid for the work required to administer street carded parcels. In addition, the review found that for smaller, low volume outlets, particularly in rural Australia, the costs of running the full business are greater than current earnings from Australia Post.

On 13 May 2015 Australia Post announced measures to address these two key findings. Commencing 1 July 2015, payments for street carded parcels will increase from 60 cents to \$1.60 (including GST), benefitting more than 1,800 licensees. Nearly 500 smaller LPOs will also benefit from a \$10,000 increase to the minimum annual payment. These measures will boost payments by \$51.4 million over the next four years. Australia Post has stated that its capacity to sustain these payments is linked to the implementation of the letter service reforms, including its proposed increase in the Basic Postage Rate from 70 cents to \$1.

Australia Post is continuing to work through the findings of the review with licensee representative groups, for example in relation to post office box payments and potential improvement opportunities such as staff utilisation.

18. The Committee recommends that Australia Post, when negotiating the current value of franchises, takes into account the impact on the value of franchisees of its inability to deliver the promised opportunities.

Australia Post has entered into mediation with franchisees regarding the transition of Franchised Post Offices to LPOs.

Labor Senators' Additional Comments

1. The Government not outsource any functions of the Department of Human Services to Australia Post.

The Government continues to encourage Australia Post and government agencies to consider any commercial opportunities for Australia Post to deliver government services. Australia Post is a Government Business Enterprise operating in an open and competitive market. It should be noted the Commonwealth procurement rules apply to contracts between Government agencies.