Senate Standing Committee on Environment and Communications

Answers to Senate Estimates Questions on Notice

Supplementary Budget Estimates Hearings October 2015

Communications Portfolio

Australia Post

Question No: 134

Australia Post

Hansard Ref: Written, 29/10/2015

Topic: Annual Report

Senator Urquhart, Anne asked:

1. On page 14 of the Annual Report, it is stated that the financial performance of the group has been affected by the asset write-offs and impairments. Why was the review of assets undertaken and can you explain the impact on the financial performance in greater detail?
2. Why have you changed the reporting of executive pay in the 2015 Annual Report?
3. Did you receive a performance bonus in the last financial year? Did other executive members? If yes, can you provide the committee with a detailed summary of the amounts?
4. The Annual Report states that 35 per cent of parcels are now delivered by posties. Does Australia Post's cost allocation model take that into account when attributing costs across it business centres? How has this impacted on the parcel revenue?
5. Can you provide the committee with more detail of the re-measurement of the defined benefit superannuation net asset? Who undertook the reassessment? Why was this undertaken? What was the impact on the profit or loss this last financial year?

Answer:

1. The 2014/15 financial result for Australia Post includes $214.1 million in asset write-offs and impairments.

   Costs associated with the write-down of inventory ($7.4 million) and receivables ($12.9 million) have occurred in the ordinary course of business in line with existing inventory and receivable policies in place.

   The remaining write-down and impairment costs were identified following a review of the carrying value and useful life of non-current assets in accordance with the requirements of AASB 136 Impairment of Assets, AASB 138 Intangible Assets, and AASB 116 Property Plant and Equipment. This review included all non-current assets including software, property plant and equipment, capitalised project costs, and other intangible assets. The effect on the carrying value of assets is detailed in notes B2 and B3 to the 2014-15 Annual Report. Note B4 to the Annual Report provides further explanation of the impairment review process.

   Write-downs and impairments are subject to Board review, including external audit by the Australian National Audit Office who were assisted by Ernst & Young. These have been approved by the Board and supported by the external auditors as being consistent with sound accounting practice.

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2. As a government business enterprise Australia Post has to prepare its remuneration report in accordance with the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015. The disclosures required under the Rule are aligned to those required under AASB 124 *Related Party Disclosures*. Under AASB 124, an entity is required to disclose key management personnel compensation in total and for each of the following categories:
    (a) Short-term employee benefits;
    (b) Post-employment benefits;
    (c) Other long-term benefits; and
    (d) Termination benefits.

    The disclosures in the 2015 annual report have been prepared on this basis.

3. The amounts disclosed in the 2014/15 annual report include a portion relating to performance bonuses for the Managing Director & Group CEO as well as other members of the executive team. The amounts disclosed are further broken down as follows:

Short-term employee benefits	
At risk component	$1,433,505
Other short-term benefits	$6,959,792
Total short-term employee benefits	**$8,393,297**
Post-employment benefits	
Superannuation benefits	$502,535
Total post-employment benefits	**$502,535**
Other long-term benefits	
At risk component	$4,376,703
Other long-term benefits	$196,889
Total other long-term benefits	**$4,573,592**

In accordance with the Financial Reporting Rule and AASB 124, the amounts disclosed above have been prepared on an accrual basis. On this basis, the "At risk components" disclosed have been accrued at 30 June 2015 and are expected to be paid in future periods.

On a cash basis, the Managing Director & Group CEO and other members of the executive team received payment of performance bonuses during 2015 which were accrued for at 30 June 2014 or earlier years. These amounts totalled $6,645,810 and included $1,471,806 of deferred payments relating to performance in earlier financial years.

Whilst the Managing Director & Group CEO was entitled to a performance bonus of $2.9 million for the 2014/15 financial year based on the achievement against the KPIs that were set in June 2014, he declined payment. This non-payment was not related to any performance issue. Bonus payments for the senior executive team were also reduced by 50 per cent.

4. Yes. Australia Post employs an Activity Based Costing methodology that uses letter and parcel volumes to attribute the costs of delivery, including parcels delivered by postal delivery officers. This methodology ensures that shared costs, such as the cost of postal delivery officers who deliver both letters and parcels, are attributed to product groups appropriately in accordance with the Record Keeping Rules issued by the ACCC.

   The delivery of parcels by our postal delivery officers does not impact on the treatment of revenue, with all revenue generated by Parcel products allocated to the Parcel Services segment.

5. Under Australian Accounting Standards the re-measurement of the defined benefit superannuation net asset must be undertaken at the end of each financial year. The re-measurement was undertaken by Russell Investments, Mr Sam Underhill, FIAA – Actuary to the Australian Postal Corporation. This is consistent with previous years.

   Variable key inputs that favourably or unfavourably impact the re-measurement of the net asset year to year include:

   - investment returns
   - fluctuations in the discount rate

   In 2014/15 the significant increase in the net superannuation asset has been driven by:

   - higher than assumed return on fund assets, with returns being approximately 8 per cent above the level assumed (3.54 per cent); and
   - a one-off benefit from the transition to a Corporate bond rate in discounting the defined benefit obligation, with the discount rate of 4.29 per cent at 30 June 2015 above the discount rate assumed by actuary (3.54 per cent)

   The annual re-measurement of the net superannuation asset does not impact on the Profit and Loss statement with all movements being recorded in Other Comprehensive Income.