

Chapter 5

Opportunities and challenges for Australia Post

Introduction

5.1 In the previous chapter, the committee outlined the impact of the changing postal environment on the performance of Australia Post. As a first step in responding to these changes, Australia Post has implemented a restructured business model.

5.2 However, it was argued that such business changes alone will not be sufficient to ensure the long-term sustainability of Australia Post, and the postal network, in face of declining letter volumes. Australia Post commented that further measures are required to support it into the future including greater commercial freedoms, changes to the community services obligations (CSOs), and expansion of services provided through the postal network.

Future Ready

5.3 In 2010, Australia Post initiated its Future Ready strategy to 'transform Australia Post into a far more customer-driven, sustainable, high-performance and financially viable business'.¹ Future Ready is underpinned by three key strategies to:

- build a sustainable communications business, physically and digitally;
- build a world-class parcels business with excellence in service performance; and
- build a multi-channel trusted services offer for consumers.²

5.4 At the October 2012 Supplementary Budget Estimates, Mr Fahour reinforced strongly this direction for Australia Post. Mr Fahour stated:

I am not intending to hook our future to a business which has lost \$148 million. We need to secure our future. Our future is in parcels and digital communication...

We need to protect this company and we need to protect it by no longer sitting back and saying that the monopoly will deliver a guaranteed revenue stream. There are no more guarantees. Even in our traditional monopoly—and monopoly is supposed to mean you make some sort of monopoly profit—there are no monopoly profits. We lose money. Secondly, our competitor in mail is email—and that is free.³

5.5 The Department of Finance submitted that Australia Post has undertaken a number of initiatives, including:

1 Australia Post, *Annual Report 2010*, p. 2; see also Australia Post, *Submission 8*, pp 15–16.

2 Australia Post, *Annual Report 2012*, p. 22.

3 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 16 October 2012, pp 81–82.

- extracting costs from the letters business and modernising its network;
- diversification of revenue streams, including into digital mail (including Australia Post Digital Mailbox) and financial and identity verification services; and
- investment to capitalise on opportunities in its parcels business stemming from growth in eCommerce.⁴

5.6 Australia Post commented that the Future Ready program 'has been vital in the corporation returning to overall profit growth, over the past three years'.⁵ Mr Fahour added that Future Ready has been 'a huge success'.⁶ However, Australia Post submitted that:

While the Future Ready program has been valuable in transforming Australia Post's business and achieving profitability in recent years, it will not be enough to maintain Australia Post as a financially self-sustaining GBE into the future.⁷

5.7 The following provides a brief overview of some of the changes implemented under the Future Ready strategy.

Two-speed postal service

5.8 At the May 2014 Budget Estimates, Mr Fahour informed the committee that Australia Post would be offering its government and business customers an additional second speed service at a lower cost. As 95 per cent of letters are sent by government or business, this would provide significant cost savings.⁸

5.9 Mr Fahour noted that the majority of Australia Post customers had indicated that they did not need a five day a week service but wanted a basic minimum service. As a consequence, letter volumes will shift to a slower speed, slower frequency service. Mr Fahour went on to explain the efficiencies for Australia Post from this service:

The way it saves us money is that we can take the resources and, instead of having posties go down the street and not have anything to deliver, we can say, 'On these days we are doing letters, but on other days we can do more parcels.' So the whole transformation is predicated on the basis that we want to grow the parcels business.⁹

4 Department of Finance, *Submission 5*, p. 7.

5 Australia Post, *Submission 8*, p. 16.

6 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 93.

7 Australia Post, *Submission 8*, p. 16.

8 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, pp 80, 89 and 105.

9 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 94.

5.10 Australia Post indicated that, by 2015, it aimed to provide to all customers a range of services – regular letter service, priority service and express mail services – which operate at different speeds, frequency and prices. Mr Fahour concluded:

If we are to keep Australia Post relevant and viable into the future, we have to offer our customers choice and we have to give them a range of prices to reflect speed and frequency. That is happening for business next week.¹⁰

5.11 Mr Fahour responded to questions from the committee on the possible contravention of the *Australian Postal Corporation Act 1989* (APC Act) in relation to the 60c concessional stamps which were introduced in March 2014. He stated 'it is very simple. The stamp you are talking about is a 70-cent stamp. What the law does not stop us from doing is offering people a discount.'¹¹

MyPost Digital Mailbox

5.12 Australia Post has launched its MyPost Digital Mailbox. This is a free and secure online portal which allows customers to receive and pay bills and to store important documents through a secure location. Mr Fahour commented:

The Australia Post digital mailbox is a fundamental part of moving into the 21st century for us to deliver the mail in digital form. I do not believe it is a tomorrow thing. It is not going to be tomorrow. It will be something that will develop over the next five or 10 years.¹²

5.13 Australia Post has entered into contracts with 44 senders of mail, with 20 being available through My Digital Mailbox in May 2014.¹³ Mr Fahour commented that while there were commercial businesses using the digital mailbox, the addition of government services would result in a more effective and highly valuable product for society.¹⁴

5.14 In addition, the Minister for Communications, the Hon Malcolm Turnbull, has announced a partnership between Australia Post and the Department of Human Services (DHS) to trial digital mail delivery. As part of the trial, people can opt to have their government digital mail automatically forwarded to their MyPost Digital Mailbox.¹⁵

10 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 106.

11 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 112.

12 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 112.

13 See further Australia Post, Australia Post Digital MailBox, at: <https://digitalmailbox.com.au/content/marketing/en/overview.html> (accessed 3 December 2013); and Australia Post, *Annual Report 2013*, October 2013, pp 24–25.

14 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 137.

15 Minister for Communications, the Hon Malcolm Turnbull, 'Access to digital mail moves forward', *Media Release*, 18 August 2014.

5.15 In undertaking the trial, commentators have noted that Australia Post faces challenges in relation to the functionality of its system and possible moves by banks to access mail sent by Commonwealth services through systems such as BPAY.¹⁶

5.16 Some licensees expressed concern at the promotion of the digital mailbox by Australia Post. The Post Office Agents Association Limited (POAAL) commented that licensees are wary of the impact that the digital mailbox might have on letter volumes and over-the-counter bill payments. POAAL noted that the digital mailbox is aimed at people who are heavy internet users and who, most likely, seldom do business at a post office. POAAL concluded there appears to be no direct benefit to licensees in the digital mailbox.¹⁷

5.17 In addition, licensees have been concerned that Australia Post is marketing the digital mailbox to Licensed Post Office (LPO) customers including post office box holders. The committee received representations from licensees concerning an unaddressed mailing distribution of an Australia Post pamphlet relating to the introduction of the MyPost Digital Mailbox. The representations pointed to the obligations in Section 11 of the LPO Agreement, including that Australia Post shall:

- (d) use its best efforts to maximise sales of Products and Services to the mutual benefit of the Licensee and Australia Post.

5.18 It was asserted that, by encouraging the use of the MyPost Digital Mailbox for electronic communications and online payment of bills rather than the over the counter Billpay method, Australia Post was in breach of this section of the LPO Agreement.

5.19 Mr Fahour responded that 'under no circumstances would this mailout be considered to be in breach of Section 11 of the LPO Agreement'. He went on to note that the Digital Mailbox forms part of Australia Post's overall strategy to remain viable and sustainable. Further, the introduction of new revenue streams it is able to support Australia Post's ongoing viability 'which in turn directly impacts the viability of our Licensed Post Offices'.¹⁸

Parcel business

5.20 While mail volumes have been decreasing, the opposite is true of Australia Post's parcels business, with domestic parcel volumes growing by around 8 to 10 per cent per year, for the last three years. This resulted in a profit for Parcel and Express Services of \$354.8 million (an increase of 29.1 per cent or 13.1 per cent excluding StarTrack) in 2012–13.¹⁹ For 2013–14, Australia Post announced that a record profit

16 GovernmentNews, 'Human Services and Australia Post tie knot on Digital Mail, 18 August 2014, <http://www.governmentnews.com.au/2014/08/human-services-australia-post-tie-knot-digital-mail/> (accessed 10 September 2014).

17 POAAL, *Supplementary Submission 9*, p. 3; *Supplementary (No. 2) Submission 9*, p. 4.

18 Mr Ahmed Fahour, Correspondence to the committee, dated 5 June 2014.

19 Australia Post, *Annual Report 2013*, October 2013, p. 10.

of \$337.5 million operating earnings before interest and tax (EBIT) in its Parcel Services, an increase of 20.8 per cent.²⁰

5.21 Australia Post reported that this increase has been 'entirely' driven by the growth in online shopping, with approximately 70 per cent of the parcels handled by Australia Post being generated by online shopping.²¹

5.22 Australia Post has responded to the growth in parcel volumes and stated that:

Australia Post's nationwide logistics network is now underpinning the growth of thousands of businesses, like these eTailers, by providing them with a fast and reliable way of getting their product to their customers.

For this reason, Australia Post has a vested interest in expanding digital marketplaces and supporting Australian business to get online.²²

5.23 One such investment has been taking full ownership of StarTrack in 2012–13, which has meant that for Australia Post:

...for the first time in our 204-year history, we are predominantly a parcels business. This structural adjustment is reflected in our Parcel and Express Services business contributing 45.1 per cent of our total revenue.²³

5.24 Australia Post noted that it had sought to improve its parcels service through a range of initiatives, including:

- ongoing installation of 24/7 Parcel Lockers – by May 2014, 160 Parcel Lockers had been installed across Australia;
- new delivery choices in partnership with some of our major online retail customers;
- delivery of small parcels by posties with the result that 25 per cent of regular parcels are delivered by posties; and
- Saturday deliveries of parcels and Express Post.²⁴

5.25 The delivery of small parcels was seen as a very positive initiative by the CWU. Mr Martin O'Nea, Assistant National Secretary, CWU, commented:

We support the initiative and think Mr Fahour has nailed it; he has got it right. The infrastructure is there and it made perfect sense to leverage off the infrastructure. With declining mail volumes, over time the space in the

20 Australia Post, 'Australia Post reports FY14 Financial Results', *Media Release*, 4 September 2014.

21 Australia Post, *Submission 8*, p. 15; see also Australia Post, *Australia Post Annual Report 2013*, October 2013, p. 26.

22 Australia Post, *Submission 8*, p. 15.

23 Australia Post, *Annual Report 2013*, October 2013, p. 10.

24 Australia Post, *Annual Report 2013*, October 2013, p. 9; Mr Ahmed Fahour, *Budget Estimates Hansard*, 28 May 2014, p. 80; see also Mr Ahmed Fahour, *Budget Estimates Hansard*, 30 May 2013, pp 54–55; Mr Ahmed Fahour, *Budget Estimates Hansard*, 28 May 2014, p. 94.

posties' bags is getting bigger, so why not fill it with small parcels? It allows the posties to re-engage with the community.²⁵

5.26 In addition, at the May 2014 Budget Estimates, Mr Fahour informed the committee that Saturday deliveries will commence for parcels and Express Post and, from November 2014, corporate owned postal outlets will trade on Saturday.²⁶ While noting that trading on Saturday will entail additional costs, Mr Fahour stated:

...our job is to provide a service that society wants from us and they expect us to deliver. So rather than just add new expenses, we would like to take away the resources that are sitting in the declining letters business—take away the people, which we are already paying for—and move them over to the growing parcels business. I do believe in the long term that when our clients see that we are offering a quality six-day a week service, we are more likely to win new customers and, therefore, new revenue streams.²⁷

5.27 However, Australia Post acknowledges that it faces strong competition in the parcels market:

...parcel delivery is a highly competitive, international marketplace. Australia Post's continued growth in this market is not guaranteed – and, with intensifying competition the profit margins of all logistics providers will continue to come under pressure.

Australia Post needs to invest heavily in its parcels infrastructure and capabilities to ensure that, as volumes grow, its services continue to represent good value, efficiency and reliability.²⁸

5.28 POAAL also commented that Australia Post 'does not have a monopoly on post office boxes or parcels; it is all up for competition'.²⁹

Future growth – opportunities and challenges

5.29 While Australia Post has had some success with its Future Ready strategy, it was argued that continuing cross-subsidisation of the letters business from more profitable areas of Australia Post's business was not a viable long-term strategy. The Department of Finance advised that:

These initiatives have assisted in ensuring Australia Post has been able to subsidise its declining letters business and maintain its financial position to date. However, the underlying deterioration of the letters business continues.³⁰

25 Mr Martin O'Nea, Assistant National Secretary, CWU, *Committee Hansard*, 6 December 2013, p. 32.

26 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 80.

27 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 85.

28 Australia Post, *Submission 8*, p. 15; see also Australia Post, *Annual Report 2013*, October 2013, p. 26.

29 POAAL, *Submission 9*, pp 10–11.

30 Department of Finance, *Submission 5*, p. 7.

5.30 The Department of Finance also commented that 'Australia Post's business is at a critical point where its letters service is in serious decline, with an increasing reliance on its ancillary business for cross-subsidisation'.³¹ It stated that:

The majority of Australia Post's revenue and all of its profits are generated by the parts of the business operating in competitive markets. However, given the increasing losses in the letters business are forecast by Post to overwhelm any profits generated by the competitive business in the next few years, this cross subsidisation is not sustainable in the medium to longer term.³²

5.31 The Department commented on the options for sustaining Australia Post, particularly in light of constraints in the *Australian Postal Corporation Act 1989* (APC Act), and stated:

Accordingly, the scope for continuing to manage the decline of the letters business and Australia Post's longer term sustainability, without significant reform or policy intervention is limited. This gives rise to a number of public policy issues regarding the requirements of the CSO and the means by which it is delivered.³³

5.32 This view was supported by the Department of Communications.³⁴

5.33 BCG also commented that it did not believe that 'it is either feasible or desirable' to rely on funding the reserve service from profits of other Australia Post business areas. BCG noted that in other markets, when operators had attempted to maximise profits in parcels to offset losses in letters, an erosion of competitiveness had occurred.³⁵

5.34 The committee acknowledges that Mr Fahour has stated on many occasions that the losses in the letters business will overwhelm the profits in other areas, notably parcels. At the May 2014 Budget Estimates, Mr Fahour stated:

As of this calendar year 2014, we are getting overwhelmed...unless we reform this business, forget about Australia Post. We cannot save the licensed post offices. And the best way to save the licenced post offices is to save Australia Post. We need to modernise this company fast.³⁶

5.35 Australia Post proposed three initiatives that would help it maintain profitability, modernise its business and ensure the continued viability of its business partners:

31 Department of Finance, *Submission 5*, p. 4.

32 Department of Finance, *Submission 5*, p. 6.

33 Department of Finance, *Submission 5*, p. 7.

34 Department of Communications, *Submission 7*, p. 5.

35 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, pp 16, 18.

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

- gain a stamp price increase to minimise the loss in letters and provide a revenue boost for LPOs;
- necessary adjustments to the current limits on Australia Post's commercial freedoms; and
- gain approval to offer a wider range of trusted services on behalf of government.³⁷

5.36 Mr Fahour indicated to the committee that in developing its corporate plan:

We are working through a range of options and scenarios for the ministers to review as part of our corporate plan submission. As you can imagine...if we do not make changes to add services in parcels, and reduce resources in letters, we will be an unviable business.³⁸

5.37 The committee notes that the BPR was increased in March 2014. The remaining two initiatives are explored below, as well as ownership change.

Commercial freedoms

5.38 In its evidence to the committee, Australia Post emphasised that it was seeking options for growth in its non-regulated services to ensure that they 'remain high performing, competitive businesses'.³⁹ In addition, Mr Fahour commented that Australia Post 'needed to replace our lost letter business with further commercial freedoms'.⁴⁰

5.39 Australia Post argued that one of the major constraints on its ability to grow and diversify into other business streams is potentially contained in its enabling legislation. It went on to state that 'various interpretations of our enabling legislation have caused the shelving of a number of potential opportunities that are complementary to Australia Post's core business'.⁴¹

5.40 Australia Post pointed to the product diversification undertaken by other postal services, which have enabled them to grow substantial commercial businesses. For example, Deutsche Post, Royal Mail and New Zealand Post have pursued diversification agendas, including into financial services, parcels, Telcos, logistics and retail businesses.⁴²

5.41 In relation to diversification, the Department of Finance commented on two matters: the capital investment required and the constraints contained in the APC Act. The Department stated:

37 Australia Post, *Submission 8*, p. 16.

38 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 88.

39 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 108.

40 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 17 March 2014, p. 1; see also, Australia Post, *Submission 8*, p. 19.

41 Australia Post, *Submission 8*, p. 18.

42 Australia Post, *Submission 8*, pp 18–19.

A significant level of capital for investment by Australia Post (and by default the Commonwealth Government) to acquire assets in fully contestable markets, would likely be required to generate sufficient revenue and profits to cross subsidise increasing losses in the letters business.⁴³

5.42 Ms Stacie Hall, Department of Finance, explained further:

It is a matter for government as a policy consideration as to whether, firstly, it would support a diversification strategy and then there is a further question as to how that would be funded, whether from post's-retained earnings or from reduction in dividend returns to government or through debt or additional equity. There are a number of avenues there in the event that government considered it was an appropriate policy response to the challenge for Australia Post to further diversify its business in order to generate new revenue to cross-subsidise the increasing losses of letters.⁴⁴

5.43 In relation to constraints contained within the APC Act, Ms Hall noted that Australia Post's principal function is to supply postal services and in addition to that it is enabled, under its legislation, to undertake other functions that are ancillary and incidental to its principal functions. These ancillary functions include parcel delivery and a range of additional services pertaining to its retail activities. However, undertaking a wider range of activities 'would be inconsistent with the requirements of the [APC Act]'.⁴⁵

5.44 The Department of Finance concluded that Australia Post is already well diversified and 'its ability to further diversify is constrained by legislative impediments and would require significant additional capital funding'.⁴⁶

5.45 Australia Post submitted that the APC Act needs to be reviewed to allow it greater commercial freedoms.⁴⁷

Committee comment

5.46 The committee considers that any move to increase Australia Post's commercial freedoms requires careful consideration by government and the community. The committee notes that there are a range of issues arising from allowing greater commercial freedom including the level of capital requirements need by Australia Post to undertake any new services and the extent to which a government business enterprise should engage in contestable markets to support the provision of the CSOs.

5.47 The committee considers that the capital requirements needed for Australia Post is a matter for government to assess. In relation to supporting the CSOs, the committee recognises that there are few commercial incentives for private providers in

43 Department of Finance, *Submission 5*, p. 8.

44 Ms Stacie Hall, Department of Finance, *Committee Hansard*, 6 December 2013, p. 52.

45 Ms Stacie Hall, Department of Finance, *Committee Hansard*, 6 December 2013, p. 52.

46 Department of Finance, *Submission 5*, p. 8.

47 Australia Post, *Submission 8*, p. 19.

remote, rural and regional Australia to undertake the services provided through the postal network. It therefore may be that the only way to maintain services in remote, rural and regional areas is by providing greater commercial freedoms to Australia Post. In this regard, the committee is mindful of the crucial role the postal network, particularly LPOs, plays in communities where other service providers have withdrawn.

5.48 The committee considers that the maintenance of the CSOs is a priority. Greater commercial freedoms for Australia Post should only be considered if this provides support for the delivery of the CSOs through a viable LPO network.

Recommendation 3

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

Community service obligations

5.50 Australia Post has, on many occasions, emphasised the importance of meeting its CSOs. For example, Mr Fahour commented at the 2013 Supplementary Estimates that:

We are really proud of the fact that we have not missed our CSO standards. Our strategy is always intended on meeting our dual obligations of the service standard, as well as the commercial rate of return. So our strategies and plans are predicated on meeting those standards.⁴⁸

5.51 Mr Fahour commented that Australia Post exceeds its CSOs in some areas. He noted, for example, that mail is delivered to 98.8 per cent of homes five days a week rather than the 98 per cent required under the CSOs.⁴⁹

5.52 Information on the basis for the CSOs was contained in the 1998 review of the CSOs by the National Competition Council (NCC) under the Competition Principles Agreement. The NCC supported the universal service obligation for letters as it assists in the 'social, industrial and commercial needs of communities and the development of the nation'. The NCC recommended retention of the universal service obligation because the costs incurred were fully justified by the social benefits, and there was (at that time) no effective alternative means of providing those social benefits.⁵⁰

5.53 In addition, the NCC found that for rural and regional areas the universal service obligation had greater significance, creating a delivery network through which Australia Post delivers parcels, food, spare parts, educational and health materials. The Department of Communications concluded that while the NCC Review is dated,

48 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 41.

49 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 30 May 2013, p. 62; see also Australia Post, *Submission 8i*, p. 9.

50 Department of Communications, *Submission 7*, p. 5.

the findings regarding services in rural and regional areas 'appears to remain substantially the same'.⁵¹

Sustainability of the community service obligations

5.54 It was argued that it was time for the CSOs to be reviewed as letters no longer provide the social or economic benefits as they once did. The Department of Communications stated that today 'it is clear that the relevance of letters to the nation's social, industrial and commercial needs has changed'. While not discounting the need for an affordable, easily accessible, service – 'of some kind' – the Department concluded 'given changes to consumer preferences and technology there is a case for re-examining how this service is most effectively provided to the community'.⁵²

5.55 Further, it was argued that the providing the CSOs to the prescribed level has resulted in growing losses for Australia Post. The losses from the letters business are now so large that they are eroding Australia Post's financial position. Australia Post is unable to continue to absorb the losses or to address them through the changes to its business strategies. Mr Drew Clarke, Secretary, Department of Communications, indicated that a policy reform package was required as well as business strategies.⁵³ That policy reform would be required to provide Australia Post 'additional flexibility in the way it provides the letters service for it to be sustained'.⁵⁴

5.56 BCG commented on the need for reform and pointed to the high fixed cost base of the letters business and stated that:

Reducing delivery speed and frequency are the key levers to significantly reduce the fixed component of ~60% of costs (that is all cost buckets except indoor delivery, other operating and indirect costs), but such moves are constrained by the prescribed Performance Standards.⁵⁵

5.57 In an address to the American Chamber of Commerce in May 2014, Mr Fahour pointed to need for change or reform and stated that without such action government funding of the community service obligation would be required.⁵⁶ At the May 2014 Budget Estimates, Mr Fahour went on to argue that Australia Post had to implement change while it could do so:

51 Department of Communications, *Submission 7*, p. 6.

52 Department of Communications, *Submission 7*, p. 5.

53 Mr Drew Clarke, Secretary, Department of Communications, *Budget Estimates Hansard*, 28 May 2014, p. 77.

54 Department of Communications, *Submission 7*, p. 5.

55 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, pp 14–15.

56 *The Australian*, 'Aust Post to lose \$1bn per year', 9 May 2014, <http://www.theaustralian.com.au/business/latest/aust-post-to-lose-1bn-per-year/story-e6frg90f-1226911979272?nk=5d44bf43a5e6e0939fa8b245e68ae4a3> (accessed 10 September 2014).

We have to change the letters service now while we are strong in order to maintain our broader services and protect the community's equity in our business.⁵⁷

5.58 Mr Fahour also commented that the community understands the need for change and that Australia Post has 'to invest in the services they [the community] want'.⁵⁸

5.59 The Department of Finance pointed to changes implemented by overseas postal services in the face of declining letter volumes. For example, in 2013 New Zealand Post announced the introduction of a minimum three-day delivery to urban areas while maintaining five-day delivery in rural delivery areas; and permitting minimum points of presence to include self-service kiosks after 30 June 2015.⁵⁹

Consumer demand

5.60 BCG also commented on current service standards and stated that it believed that current service standards for letter delivery exceed the demands of most customers. BCG pointed to survey data of 400 customers in each of 14 countries, including Australia, which showed that only one-third of customers use their mail directly on the day they receive it.⁶⁰

5.61 In relation to surveys of Australian consumers conducted by Australia Post and analysed by BCG, it was shown that approximately half of survey respondents in all segments were willing to accept a move to three-day delivery, with only about a third rejecting this change and the remainder neutral. Few (only on average 5 per cent) of the people who would reject a move to three-day delivery would be willing to pay \$25 per annum to retain current standards. BCG concluded that it believed 'that willingness to pay is a reasonable proxy for the true level of customer need'.⁶¹

5.62 In addition, the survey showed that there is a greater level of customer sensitivity towards changes to delivery location. On average, only one-quarter of customers in Australia Post's survey would support a move to post office box rather than home delivery. However, only six per cent would be willing to pay \$30 per annum to retain home delivery. Around three-quarters of Australians across all segments would not accept paying \$30 per annum or a lower amount to retain home delivery.⁶²

57 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 80.

58 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 89.

59 Department of Finance, *Submission 5*, p. 8.

60 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 18.

61 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 19.

62 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 19.

5.63 The Australia Institute provided a review of BCG's comments and stated that 'BCG has been a long term advocate of deregulating the postal industry in order to allow lower levels of customer service'. The Australia Institute went on to state:

Consistent with their long term international strategy, the Boston Consulting Group recently advised the Australian Government that the Australian postal system should be deregulated to allow lower quality and frequency mail delivery. Their report to the Australian Government, which is analysed below, includes dire warnings about the 'weak-link' of mail delivery, and the need to 'set free' the courier and retail businesses.⁶³

5.64 The CWU Victoria Branch commented that 'service standards are being undermined throughout country Victoria' and pointed to reports from its members of the amount of mail left behind in delivery centres on a regular basis. The CWU Victoria Branch added that the deviation from a 'clear floor policy' may compound as there will be greater risk of mail mix-ups and workers will be unable to readily check dates of postage.⁶⁴

Committee comment

5.65 The committee notes that Australia Post is incurring a significant cost to meet to meet its current CSOs which will be difficult to fund into the future. In addition, the committee notes the evidence that suggests that Australia Post is delivering to a service standard, in relation to frequency of delivery, which is no longer required by customers. It was thus argued that reform of the CSOs would assist in curtailing losses in the letters business with no detriment to the community.

5.66 The committee notes that the CSOs were last reviewed in 1998. At that time, the universal service obligation was recognised as assisting social, industrial and commercial needs of communities and the nation. Since that time, there have been significant changes in technology and thus the community's dependence on mail services has diminished.

5.67 The committee acknowledges it may well be that, today, the majority of the Australian community consider that there would be no adverse consequences to reducing the number of mail deliveries that households receive. In that regard, the committee notes that some rural communities do not receive a daily postal delivery, for example, deliveries of three days per week.

5.68 The committee considers that further independent review of the CSOs is urgently required before any decisions on changes to the CSOs are reached. Such a review should include broad community and stakeholder consultation.

5.69 The committee acknowledges that post office outlets undertake many different functions particularly in the provision of services to small communities and

63 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 5.

64 CWU Victoria Branch, *Submission 6*, p. 3.

disadvantaged groups. The review of the CSOs should take into account the effect of any changes to postal services on all users.

Recommendation 4

5.70 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.

5.71 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.**

Expansion of the delivery of trusted services

5.72 Australia Post has, for many years, provided a range of 'trusted services' on behalf of government and other providers such as passport applications, broader identity services, financial services and payments, foreign exchange, identity services, insurance and travel services. Today, Australia Post provides these services on behalf of 750 organisations, servicing over 800,000 retail customers every business day.⁶⁵

5.73 Australia Post noted that the provision of trusted services maintains customer visitation to Australia Post outlets. Together with careful cost management, access to trusted services 'has enabled Australia Post's Retail Services business to improve profit incrementally – despite the decline in customer numbers'.⁶⁶

5.74 In order to maintain its viability, and that of its business partners (especially LPOs), Australia Post proposed that it gain approval to offer a wider range of trusted services on behalf of government.⁶⁷ Australia Post went on to comment that it is 'well positioned' to deliver trusted services leveraging its:

- customer centric trusted brand;
- 200+ years of history in delivering Government Services across a broad range of activities;
- extensive physical footprint (4,400+ points of presence);

65 Additional Estimates 2014, Australia Post, *Answer to question on notice*, No. 146.

66 Australia Post, *Submission 8*, p. 14.

67 Australia Post, *Submission 8*, p. 16; see also Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 17 March 2014, p. 1.

- deep experience in the delivery of project based outcomes (Future Post & Future Ready);
- commercial focus; and
- existing expertise in payments, identity and communications.⁶⁸

5.75 In late 2013, media reports suggested that Australia Post outlets might expand into providing into other government services, in particular those currently provided by Centrelink.⁶⁹ In response to these reports, the Minister for Human Services and Minister for Social Services clarified that:

The Australian Government has not granted permission to Australia Post to "expand into" government service delivery such as Centrelink services...Australia Post can make a submission to the Commission of Audit, proposing to offer a range of government services...

The Commission of Audit will consider all submissions on their merit, and the Government will consider the report of the Commission, however, no permission has been granted to Australia Post or any other third-party outlet to offer Centrelink or any other government payments.⁷⁰

5.76 Australia Post indicated that it would make a submission to the National Commission of Audit and would identify 'the type of trusted services that we could offer on behalf of Government departments and agencies while delivering an efficiency dividend for the whole of government'.⁷¹

5.77 The National Commission of Audit report stated Australia Post had prepared a proposal to deliver of a range of government services currently provided by the Department of Human Services:

Under the Australia Post proposal there would be a physical integration of service points for the Department of Human Services within Australia Post's network of retail outlets. The proposal would envisage 334 Centrelink service centres, as well as 126 rehabilitation centres and 139 standalone Medicare offices amalgamated into Australia Post's network.

The Commission recognises outsourcing of the payments system arrangements would be a substantial and potentially high risk undertaking. It requires very careful consideration.

68 Australia Post, *Additional Estimates 2014, Answer to question on notice*, No. 146.

69 See, for example, Joanna Heath, 'Post, Centrelink merger backed', *Australian Financial Review*, 29 October 2013, p. 9 and 'Post offices may do Centrelink's job', *Australian Financial Review*, 28 October 2013, p. 1.

70 Senator the Hon Marise Payne, Minister for Human Services, and the Hon Kevin Andrews MP, Minister for Social Services, 'No decision on Government Service Delivery Expansion', *Media release*, 19 November 2013, at: http://www.mhs.gov.au/media/media_releases/2013/11/19_11_2013_-_no_decision_on_government_service_delivery_expansion (accessed 2 December 2013).

71 Australia Post, *Submission 8*, p. 18.

This would include a judgement on whether the assessment of entitlements is an appropriate activity for outsourcing; whether outsourcing should be confined to the development and maintenance of the replacement for the Income Security Integrated System, or whether the payment mechanism only should be outsourced.

The Commission does not support the outsourcing of assessment of entitlements. However, there may be merit in testing the market for the delivery of other aspects of the payments system. A scoping study should be developed, informed by the advice of a business technology expert.⁷²

5.78 Australia Post's capability to deliver trusted services was canvassed at the February 2014 Additional Estimates. Mr Fahour responded that Australia Post had assessed a range of government services currently available to identify those which could be undertaken by the postal network. He stated:

Of the ones that we could do, we wanted to make sure that we put the best foot forward to say that a great institution like a Australia Post is in a position to undertake them—like it has undertaken, historically, things like passport applications—and that we could do them really well through our licenced post office and corporate post office network.⁷³

5.79 Mr Fahour went on to add that the delivery of further trusted services was a very big opportunity for the postal network. Revenue from trusted services had now risen to \$90 million and 'there are immediate opportunities to grow that revenue profile to the post offices'.⁷⁴

5.80 Individual licensees and groups representing LPOs were supportive of proposals to extend services provided by Australia Post and its network. Licensees commented that not only would it be beneficial to their viability but also assist many small communities. One licensee suggested that the Government should:

...take advantage of utilising the extensive Australia Post network by incorporating transactions such as Centrelink. This type of agency work would complement the suite of transactions we undertake on behalf of the Government and its bodies. It would certainly help the bottom line of all Licensed Post Offices, as well as assisting customers who live in areas where they cannot readily access those services, or who are elderly or infirm.⁷⁵

5.81 Similarly, another licensee commented that:

Provision of some Centrelink services would be much appreciated by many residents in our township. It would also help boost the income of our post office...It is a logical extension, and members of the public tend to

72 National Commission of Audit, *Towards Responsible Government: the Report of the National Commission of Audit, Phase One*, February 2014, pp 232–33.

73 Mr Ahmed Fahour, *Additional Estimates Hansard*, 25 February 2014, p. 117.

74 Mr Ahmed Fahour, *Additional Estimates Hansard*, 25 February 2014, p. 127.

75 Mr Tony and Ms Noelene Brandi, *Submission 96*, p. 2.

associate post offices, even those privately owned LPOs, as a function of Government.⁷⁶

5.82 Ms Angela Cramp of the LPO Group also told the committee that 'we are very happy for any new business as long as it is commercially remunerated'.⁷⁷

5.83 POAAL recommended that the range of government services available through Australia Post, and the LPOs, should be extended. It noted that many post offices already offer a number of government services, such as drivers licence applications/renewals; passport applications/renewals; and payment of local council parking fines and rates. POAAL suggested that:

Offering more Government services (such as simple Centrelink transactions) through the post office network would increase business levels at LPOs and help keep the post office in the community.

Local residents also benefit from not having to travel large distances to access government services.⁷⁸

5.84 However, POAAL noted there were some services that it did not consider would be feasible for LPOs to offer. Mr Ian Kerr, CEO, POAAL, commented that LPOs could undertake tasks similar to those already available, such as ID transactions, simple proof of payslips which are similar to witnessing of documentary transactions. However, he considered other tasks beyond the ability of LPOs:

We would probably draw the line—but I do not necessarily wish to bind Australia Post to this—at giving advice on legislation, assessing eligibility, and tasks like. Case management would be another example. These are tasks that require a significant amount of training, perhaps three or six months training, for Centrelink staff in a regional office, before they are dealing with the public. So I would suggest that that is a reasonable sort of line to draw there.⁷⁹

5.85 Other submitters expressed concerned about proposals for Centrelink services to be provided by Australia Post outlets. For example, the Community and Public Sector Union (CPSU) objected strongly to allowing Australia Post to take over services currently undertaken by DHS, such as administering Centrelink payments. The CPSU explained its concerns:

The proposal for Australia Post to undertake DHS functions raises significant concerns about what it might mean for the level of service provided to Australians in need. DHS already performs exceptionally and reliably day after day in delivering a massive scope and scale of services.⁸⁰

76 Mr Steven Kummerow, *Submission 79*, p. 4; see also, Mr Akil Kolhapurwala, *Submission 80*, p. 3; Ms Jenny Patroni, *Submission 83*, p. 3.

77 Ms Angela Cramp, LPO Group, *Committee Hansard*, 6 December 2013, p. 9.

78 POAAL, *Submission 9*, p. 29.

79 Mr Ian Kerr, POAAL, *Committee Hansard*, 26 March 2014, p. 3.

80 CPSU, *Submission 4*, pp 1–2.

5.86 The CPSU continued:

Australia Post staff already undertake a wide range of complex tasks in their day to day roles. To expect them to take on a greater workload with more complex matters is unrealistic and unfair. Staff will also require continuous training to stay up to date with any changes to the system of welfare payments. Furthermore any savings from outsourcing functions is unlikely to offset the costs of training Australia Post staff.⁸¹

5.87 The CPSU noted that it is 'unclear at this stage exactly which services or transactions it is envisaged that Australia Post could take over', but that:

...there are few simple transactions in Centrelink and those that are straightforward such as lodging forms are increasingly being conducted online. When a customer attends a Centrelink or Medicare office, it is usually because they cannot perform the function online or need more comprehensive support or assistance.⁸²

5.88 The CPSU concluded that the proposal was 'likely to result in an overall reduction in the quality of service delivery on behalf of DHS, an organisation many Australians rely on at various points of their lives' and that:

The claimed savings from transferring functions to Australia Post are unlikely to account for the full cost of replicating and maintaining DHS ICT infrastructure. It would a far better decision to invest the money required on enhancing its existing infrastructure to improve efficiency and capacity.⁸³

Committee comment

5.89 The committee considers that the postal network provides an opportunity for government to deliver services more efficiently and would benefit many smaller communities. In addition, LPOs and postal franchises, which provide the vast majority of services in remote, regional and rural areas, would reap benefits in payments and increased foot traffic to their post offices.

5.90 However, the committee is mindful that the delivery of more complex *trusted* services also requires higher levels of skill, more training and a possible increase in staff numbers. In relation to licensees and franchisees, there are issues around adequacy of compensation for the delivery of any new services which the committee considers requires investigation before the provision of additional services is undertaken.

5.91 The committee therefore believes that any proposal for Australia Post to deliver more complex *trusted* services must be carefully considered and take into account the impact on licensees and franchisees as well as the efficient and effective delivery of those more complex services to the Australian community.

81 CPSU, *Submission 4*, p. 2.

82 CPSU, *Submission 4*, p. 2.

83 CPSU, *Submission 4*, pp 2–3.

Recommendation 5

5.92 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.

5.93 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.

Changes to ownership

5.94 Both Australia Post and the Department of Finance pointed to changes in the ownership of overseas postal services, including the full or partial privatisation of postal services that has occurred in Germany, Austria, the Netherlands, Belgium and, most recently, the United Kingdom. The Department of Finance went on to comment that the benefits of privatisation in these jurisdictions have included greater access to capital and increased flexibility to innovate, take on commercial risk and reform cost structures.⁸⁴

5.95 The National Commission of Audit also stated that 'opportunities exist to consider the privatisation of Australia Post'.⁸⁵

5.96 There was extensive support for the continuation of Australia Post as a government entity from individuals, licensees and stakeholders.⁸⁶

5.97 POAAL supported the continued government ownership of Australia Post and went on to argue that privatisation was the 'biggest threat to the survival' of LPOs and stated that:

It is in the best interests of all Australians – particularly those in rural, remote and isolated areas – that Australia Post remains government-owned.⁸⁷

5.98 The CEPU (NSW Branch) also raised the issue of threats to service levels should Australia Post be privatised. It stated that:

Privatisation will, overnight, remove the need for services to be maintained. Despite contractual arrangements and regulation, postal services that do not make a profit will be left behind. Even subsidised postal services in particular

84 Department of Finance, *Submission 5*, p. 8; Australia Post, *Submission 8*, p. 19.

85 National Commission of Audit, *Towards Responsible Government: The Report of the National Commission of Audit, Phase 1*, February 2014, p. 213.

86 See, for example, CWU Australia, *Submission 2*, p. 7; Conrad and Jane Silvester, *Submission 28*, p. 3; Ms Lisa Cooper, *Submission 71*, p. 3; Mr Graeme Jilbert, *Submission 75*, p. 2; Mr Steven Kummerow, *Submission 79*, p. 6; Mr Akil Kolhapurwala, *Submission 80*, p. 4; Ms Jenny Patroni, *Submission 83*, p. 2; Ms Cynthia Turner, *Submission 86*, p. 2; Mr Russell Benn, *Submission 90*, p. 2; Ms Robyn Chapman, *Submission 104*, p. 2.

87 POAAL, *Submission 9*, pp 29–30.

the regulated mail delivery service will diminish or eventually be lost altogether in high operational cost areas like regional and remote areas of Australia.⁸⁸

5.99 The CPSU similarly submitted that it:

...strongly supports retaining ownership of Australia Post in Government hands and opposes any deregulation of the postal service. By retaining ownership of Australia Post, the Government can ensure that all Australians continue to receive a good postal service regardless of where they live.⁸⁹

5.100 Licensees were concerned not only for the potential adverse impact on their businesses but also the impact on the communities which they served.⁹⁰ For example, Ms Lisa Cooper stated:

We have several hundred thousand dollars invested in our LPO business. I am concerned at recent rumours that AP may be privatised and the impact that this may have on the value of our business.

We hope that the Senate Environmental and Communications Committee fully understand the impact that privatisation may have a thousands of small business owners and employers around Australia, many in struggling rural areas where employment rates are high.⁹¹

Committee comment

5.101 The committee notes that, while the National Commission of Audit recommended the privatisation of Australia Post, the Minister for Finance, Senator the Hon Mathias Cormann, has clearly indicated that the Government would not proceed with the sale of Australia Post.⁹²

Committee concluding comments

5.102 The committee acknowledges the role of Future Ready in assisting Australia Post to sustain its financial position to date. However, the committee notes that issues have arisen in relation to the changes implemented by Australia Post. These include the expansion of the parcels business which has caused concern within the LPO network.

5.103 Future Ready, the increase in the BPR and the changes to the legacy superannuation arrangements, undoubtedly have assisted Australia Post to address many of the consequences of a declining letters service. However, it was argued that the letters business will continue to decline and innovative business strategies alone will not support the long-term sustainability of Australia Post.

88 CEPU (NSW Branch), *Submission 11*, p. 3.

89 CPSU, *Submission 4*, p. 1; see also CWU Australia – National Office, *Submission 2*, p. 9.

90 See, for example, Mr Chris Campbell, *Submission 93*, p. 3.

91 Ms Lisa Cooper, *Submission 71*, p. 3.

92 Senate Finance and Public Administration Legislation Committee, *Committee Hansard*, 28 May 2014, p. 15.

5.104 Australia Post occupies a unique place in the Australian community and it is facing, perhaps, the most significant challenges to its business since its establishment. Important and far-reaching decisions will have to be made in the near future.

5.105 The committee considers that as Australia Post and the Government further consider options for addressing the changes in Australia Post's letters business, there is a need to ensure that all stakeholders, and the Australian community, have confidence in the information on which decisions are made and that there is transparency to decision making processes.

5.106 The committee considers that the community should be given clear and detailed information about the issues confronting Australia Post and the postal network. Australia Post should also be required to genuinely consult with all stakeholders to determine how these challenges can be met and to plan what the postal network will look like in the future.

5.107 The committee is concerned that Australia Post is making changes without involving all the stakeholders. In particular, the committee notes the comments from POAAL that 'it is difficult to be a small business operator in the postal sector when there is no clear and articulated vision from Australia Post of where the business is heading'.⁹³

5.108 The committee further considers that this has contributed to the growing divide between the various stakeholders and Australia Post. This divide is particularly evident in the dysfunctional relationship between Australia Post and the majority of licensees. The committee therefore believes that the rebuilding of this relationship is fundamental if constructive negotiations are able to occur and the smooth transition to a 'new' postal network can be achieved.

5.109 The committee considers that there needs to be openness and transparency, as well as very broad consultation, in identifying solutions to the challenges that the postal network is facing. In particular, Australia Post must include Australia Post employees, licensees, franchisees and mail contractors in its plans for the future. Licensees and franchisees must be confident that Australia Post is cognisant of their concerns and willing to find viable solutions.

Recommendation 6

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

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

93 POAAL, *Supplementary (No. 2) Submission 9*, p. 5.

