



Australian Government
Department of Finance

**Rosemary Huxtable PSM
Secretary**

Our Ref: IS20-000007

Committee Secretary
Senate Standing Committee on Environment and Communications
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary

In response to your invitation of 18 June 2020, please find attached a submission by the Department of Finance to the Inquiry into *'The future of Australia Post's service delivery'*.

The submission addresses the temporary regulatory relief for Australia Post as part of the *Australian Postal Corporation (Performance Standards) Amendment (2020 Measure No.1) Regulations 2020* as well as Australia Post's governance arrangements, financial position and outlook (Attachment A). Other matters in the Inquiry's Terms of Reference will be separately addressed by the Department of Infrastructure, Transport, Regional Development and Communications and the Australian Postal Corporation.

Thank you for the opportunity to provide this submission to the Committee. I trust this information will assist your Inquiry.

Yours sincerely

Rosemary Huxtable
Secretary

3 July 2020

Attachment A

Australian Postal Corporation (Performance Standards) Amendment (2020 Measures No.1) Regulations 2020

On 21 April 2020, the Government announced that it had agreed to temporarily adjust Australia Post's Performance Standards to reflect the operating constraints and limitations resulting from COVID-19. These adjustments are to provide Australia Post with flexibility for its workforce to meet increased demand for online ordering and delivery as people practise social distancing.

Under the temporary relaxation in regulatory requirements for Australia Post:

- its required delivery time for regular intrastate letters will be extended to five days after the day of posting;
- it will be permitted to adjust its delivery frequency, in metropolitan areas only, from every business day to every second business day; and
- it will have greater freedom in managing post offices while there is a pandemic, but will take all reasonable steps to keep outlets open.

Australia Post's customers will observe minimal disruption

The table below identifies the proposed temporary regulation change and its geographic impact. The proposed regulatory relief ensures that regional and rural Australians and their communities are not disproportionately impacted. Delivery frequency in regional, rural and remote Australia will not change.

Performance Standards (pre COVID-19)	Temporary Regulation Change	Geographic Impact
Priority Letters	The priority letters service (12% of total mail volume) to be removed until 30 June 2021. Regular and Express (not a regulated service) mail services continue.	National
Service standards for intrastate letters	Delivery service standards for intrastate letters will be extended to day of posting plus 5 days (D+5), until 30 June 2021. This reflects changes to the reliability of intrastate freight movements during COVID-19. Interstate letters standards will be unchanged.	National
Delivery Frequency standard: a) daily (each business day)—98% of all delivery points b) at least 2 days each week—99.7% of all delivery points	Delivery frequency in metropolitan areas will be amended to every second business day, until 30 June 2021. Delivery frequency for PO Boxes and in regional, rural and remote Australia will not change.	Metropolitan (no impact to regional, rural and remote)
Minimum 4,000 retail outlets nationally and 2,500 retail outlets in Rural and Remote locations	The existing requirement is retained but allows for shop closures in exceptional circumstances, for instance where multiple staff in a Post Office need to self isolate, or where an outlet area is impacted by COVID-19.	National

The majority of letters delivered by Australia Post are sent by businesses and governments (97 per cent).

Under the temporary changes, Australia Post will no longer provide its priority letters service, effective 1 June 2020. This service is predominantly used by businesses and accounts for approximately twelve per cent of letter volumes today. Regular and express post services will be maintained.

To minimise the impact on businesses of the temporary suspension of priority mail, Australia Post has implemented a temporary alternative priority timetable to assist businesses that require urgent delivery of large volumes of mail.

Temporary changes to performance standards are required

With the outbreak of COVID-19, Australia Post has experienced increased volatility in its letters' business. As illustrated in the table below, COVID-19 has seen a significant shift in consumer preferences and has accelerated existing trends, placing further financial pressure on the sustainability of Australia Post's business model. Australia Post's 2020 *Inside Australian Online Shopping Report (June 2020)* noted that growth in ecommerce, for the eight weeks following the World Health Organisation's announcement of COVID-19, was up 80 per cent year on year.

Product	Monthly Year on Year % change in Product volumes		
	March	April	May
Domestic Letters ¹	-11%	-28%	-36% ²
International Letters	-32%	-52%	-53%
Domestic Parcels	18%	64%	49%

Source: Australia Post

¹ Represents Addressed and Unaddressed letter volumes

² When adjusted for the 2019 Federal Election, Domestic Letter volume decline year on year for May is 28%.

Australia Post has experienced disruptions in linehaul as major freight partners such as Qantas and Greyhound suspended or substantially reduced significant routes, impacting Australia Post's ability to meet regulated timeframes.

Australia Post announced on 29 April 2020, that it had repurposed and opened 15 new processing facilities and commenced recruitment for over 600 casuals to assist in managing the continued parcel delivery demand in the country.

The proposed temporary regulatory relief will help Australia Post maximise efficiencies throughout its network (which is significantly disrupted) and contain costs so that it can continue to provide postal services during COVID-19. It will also assist Australia Post in pursuing other initiatives that deliver a public good, such as the recent agreements with the Pharmacy Guild of Australia (to deliver medicines) and Woolworths (to deliver essentials boxes to vulnerable Australians) with no significant resourcing impacts and to assist Australia Post mitigate the additional costs that these challenges bring in the short term.

The temporary regulations will also provide Australia Post with the flexibility to accelerate the transition of posties from motorbikes to safer forms of transport, including vans, which will have a positive impact on employee safety.

The regulatory changes are temporary and are subject to review

The Government has decided to provide temporary regulatory relief until June 2021, subject to review.

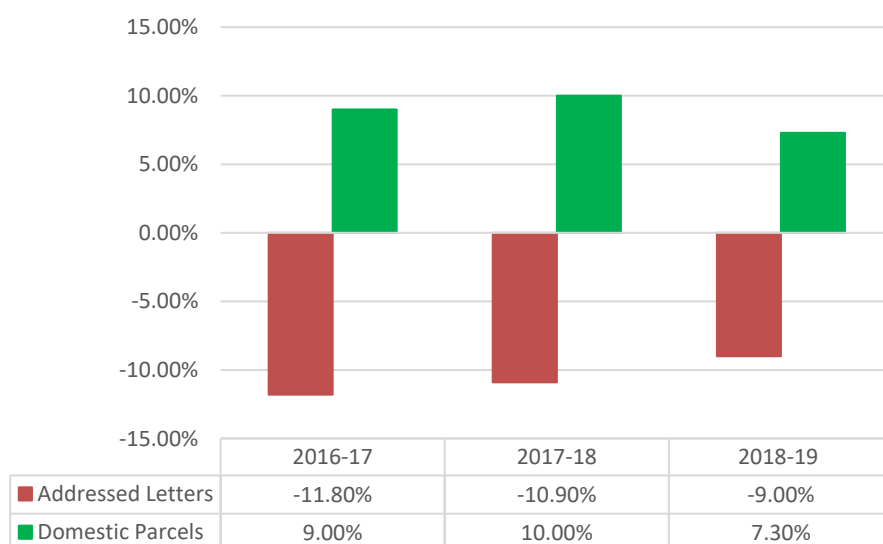
This timeframe acknowledges that Australia Post has one of the largest networks and extended workforces in Australia and structural adjustments such as these require significant transition periods.

These reforms will be subject to review as Australia Post plays an essential role in service delivery for Australians. Shareholder Ministers expect to receive regular reports on the effectiveness of the regulatory relief measures, and are expected to review the arrangements after the first six months of operation.

Prior to COVID-19 Australia Post faced considerable challenges

Australia Post has undergone significant change to its core business in recent years. Letter volumes have declined by around 55 per cent since peaking in 2008, with a decline of 9 per cent in 2018-19, resulting in losses of \$192 million in its letters business. In the first half of 2019-20, the letters business recorded a loss of \$87 million.

Graph 1: Addressed Letters and Domestic Parcel volumes (Year on Year trend)



Source: Australia Post Annual Reports

Australia Post has a large fixed cost base within its letters business to deliver on its Performance Standards. As letter volumes continue to decline, the utilisation of the network capacity falls. While some of the network capacity can be utilised by combining the delivery of small parcels with letters, this is limited by the size of the parcels that can be accommodated through regular letter deliveries.

The majority of parcels are no longer able to be streamed through Australia Post's letters business, due to the increase in parcel sizes. This has resulted in the outsourcing of parcel deliveries to third party contractors (increasing operational costs), as posties are limited in the number of parcels they can safely carry on a motorbike compared to a van.

These trends, combined with the addition of around 200,000 new addresses to its letters delivery network each year, impact Australia Post's ability to adapt its business to the changing environment.

This has resulted in Australia Post's financial position becoming increasingly vulnerable and susceptible to changing economic conditions. Whilst Australia Post achieved revenues of \$6.99 billion in 2018-19, total expenditure of \$6.92 billion (up 2.8 per cent on the previous year) resulted in a marginal profit after tax of \$40.6 million.

On 4 December 2019, S&P Global Ratings (S&P) downgraded its longer-term issuer credit rating for Australia Post from 'AA-' to 'A+'. In its advice, S&P acknowledged that: 'structural headwinds associated with Australian Post's letter business, increased investment demand, and higher operating expenditure have reduced earnings and increased debt. We expect credit metrics to further deteriorate in the year ending 30 June 2020, before recovering somewhat in fiscal 2021.'

Graph 2: Australia Post Historical financial results



Source: Australia Post Annual Reports

Australia Post's historical financial results have been highly variable. Net Profit After Tax increased by 164 per cent in 2016-17 and 41 per cent in 2017-18 on the prior years, then decreased 69 per cent in 2018-19. However, these results were boosted by one-off events, such as property sales, making the full year results look much more favourable than they would have otherwise been. As the needs of the business have transitioned, Australia Post has identified opportunities within its property portfolio to assist in future proofing its business through the sale of non-core assets.

In recent years, several of Australia Post's global peers have reformed their letter delivery frequency and speed, as part of broader postal service reforms, to deliver significant reductions in cost whilst continuing to meet community expectations. New Zealand, Italy, Finland, Netherlands, Denmark and Norway have all enacted reforms which have reduced delivery frequency and speed to reflect evolving community needs and expectations.

With regard to pricing, following the recent Basic Postage Rate (BPR) increase in January 2020, Australia Post remains the second cheapest OECD country where there is a choice of delivery speed and fourth cheapest overall. Outside of the BPR which is subject to Australian Competition and Consumer Commission oversight, pricing of products and services is a matter for Australia Post.

Australia Post's Board and Management continue to focus on the financial sustainability of the business.

Background - Context and Governance of Australia Post

Australia Post plays an important role in Australian communities. Its principal legislated function is the supply of postal services within Australia, and between Australia and the rest of the world. This includes facilitating the rapidly growing e-commerce market as the largest parcel delivery operator in the country.

Australia Post is a wholly owned Corporate Commonwealth Entity, with the Commonwealth's shareholding overseen jointly by the Minister for Communications, Cyber Safety and the Arts and the Minister for Finance (Shareholder Ministers). The Department of Infrastructure, Transport, Regional Development and Communications and the Department of Finance (together referred to as Shareholder Departments) assist the Shareholder Ministers' oversight of Australia Post.

Australia Post has been prescribed as a Government Business Enterprise (GBE) under section 5(1) of the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule). Its regulatory framework is set out in the *Australian Postal Corporation Act 1989*, the *Australian Postal Corporation (Performance Standards) Regulations 2019* and the *Australian Postal Corporation (Performance Standards) Amendment (2020 Measures No.1) Regulations 2020*.

Australia Post is also subject to the requirements of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule). Policy guidance is provided through Resource Management Guide 126: Commonwealth GBE - Governance and Oversight Guidelines (GBE Guidelines) and the Role of Directors in Commonwealth GBEs Guide.

Australia Post is required to perform its functions, as far as practicable, consistent with sound commercial practice and, at the same time, deliver its community service obligations.