

**Senate Standing Committee on Environment and Communications**

**Answers to Senate Estimates Questions on Notice**

**Additional Estimates Hearings February 2015**

**Communications Portfolio**

**Australia Post**

**Question No: 10**

**Program No. Australia Post**

**Hansard Ref: Page 18-19, 24/2/2015**

**Topic: Parcel subsidies**

**Senator Whish-Wilson, Peter asked:**

**Senator WHISH-WILSON:** Could I ask you something specific on parcel subsidies? The 2014 annual report states:

...we have now reached a turning point where we can no longer expect profits from our competitive parcels business to offset the growing losses...

You have talked about that. Pages 12 and 13 of the report indicate that overall revenue was about \$6.38 billion, and EBIT for parcels was operating profit of \$337 million and for mail services a loss of \$328 million. There are several references to revenue in the annual report; however, is difficult to find how expenses are allocated to each of the letters business and the parcel segment. For example, each day Australia Post vans distribute letters, parcels and freight to post offices in places like Northern Tasmania. These post offices then distribute those items to customers via post office boxes, over the counter and by mail delivery contractors. The vans typically have about three quarters of the space occupied by parcels and freight. How is the cost of those vans and their drivers allocated between letters and parcels? That is a very long question, and I am happy to put it on notice for you.

**Mr Fahour:** I am happy to take it also, but I can give you the short version.

**Answer:**

Australia Post utilises an Enterprise Profit Model which calculates the operational cost of 'reserved' and 'non-reserved' services Australia Post provides. This is a fully absorbed costing model and allocates production costs using the Activity Based Costing (ABC) cost allocation methodology.

The ABC methodology identifies activities within the organisation and assigns the cost of each activity resource to all products and services according to consumption. The methodology assigns the resource costs through activities to the products and services provided to customers.

For vans and driver costs, these are allocated based on volume posted and delivered (number of articles) and the relative handling effort for each article. The relative handling effort takes into account the size and mass of the article transported. The costs are then allocated to Parcels and Letters accordingly.