The Parliament of the Commonwealth of Australia

Keeping Rural Australia Posted

An Inquiry into Australia Post: Rural and Remote Letter Delivery Services

Report from the House of Representatives
Standing Committee on Communications,
Transport and Microeconomic Reform

August 1996

Australian Government Publishing Service
Canberra

ISBN 0 644 44934 9

The cover photograph was provided by Australia Post.

Produced by the Australian Government Publishing Service.

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON TRANSPORT, COMMUNICATIONS AND INFRASTRUCTURE

(37th PARLIAMENT)

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HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

(38th PARLIAMENT)

MEMBERS OF THE COMMITTEE

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PREFACE

For people in rural and remote areas, postal services fulfil a vital part of their communication needs. People in the bush rely on Australia Post for personal communication, for the delivery of medical supplies, and for the delivery of educational materials.

The focus of this inquiry is Australia Post's Community Service Obligations (CSOs). Australia Post is required by law to deliver a standard letter within Australia at a standard letter rate of 45 cents, regardless of the costs incurred. The committee supports the need for a standard letter rate.

Through the inquiry, the committee identified 80 000 delivery points that did not even receive a once a week 'to the property' delivery. The people in these areas live in some of the most remote regions in Australia. At the moment, these people must travel to the local community postal agency to collect their mail. The committee believes that these people should be given the choice of whether they want to continue receiving their post in this way or receive a once a week 'to the property' delivery.

Perhaps the most critical part of the report is about the method used to pay for Australia Post's CSOs. Some of the evidence to the inquiry suggested that budgetary payments should be used instead of the current system of cross-subsidies. The committee rejects this proposal. If cross-subsidies were removed then it is possible that, in the future, people in rural and remote areas could have their services downgraded.

The committee considered the introduction of a charter of responsibilities for Australia Post. As the standards in the charter apply to all postal users, the committee considers it is more appropriate that the charter be the subject of a separate inquiry. This would give a better opportunity for consultation and participation by all postal customers.

The conduct of the inquiry would not have been possible without the help of the community and my colleagues. On behalf of the committee, I want to thank the many people who made submissions and participated in the public meetings and public hearings.

I wish to thank the members of the previous committee and my fellow members of the current committee for their contribution to the work of the inquiry. The committee expresses its appreciation of the work of Stephen Boyd (inquiry secretary), Malcolm Aldons (committee secretary) and June Murphy (committee officer).

Mark Vaile MP
Chairman

28 August 1996

Terms of Reference
37th Parliament

... to conduct an inquiry into rural and remote letter delivery services, having regard to the need to meet the Government's social objectives of providing universal access to a letter service at a uniform rate of postage and the role of postal services to reasonably meet the social, industrial and commercial needs of those communities, with particular reference to:

- the need for and extent of Australia Post's Community Service Obligations;
- the costs and funding of these Community Service Obligations given their size and Australia Post's commercial obligations;
- the capacity of Australia Post to maintain current performance standards and options for increasing those performance standards under section 28C of the *Australian Postal Corporation Act 1989* in those communities; and
- whether any further reduction in Australia Post's reserved letter service at this stage would diminish Australia Post's capacity to maintain and/or increase its Community Service Obligations in those communities.

As part of the Inquiry the Committee should consult with rural and remote users on postal service requirements and should have regard to the needs of specific community groups, such as Aboriginal and Torres Strait Islander communities, pensioners, people with disabilities and low income households.

Terms of Reference
38th Parliament

... to conduct an inquiry into rural and remote letter delivery services, having regard to the need to meet the Government's social objectives of providing universal access to a letter service at a uniform rate of postage and the role of postal services to meet reasonably the social, industrial and commercial needs of those communities, with particular reference to:

- the need for and extent of Australia Post's Community Service Obligations;
- the costs and funding of these Community Service Obligations given their size and Australia Post's commercial obligations; and
- the capacity of Australia Post to maintain current performance standards and options for increasing those performance standards under section 28C of the *Australian Postal Corporation Act 1989* in those communities.

As part of the inquiry, the Committee should consider the establishment of a Charter which sets out the responsibilities of Australia Post in fulfilling its primary and secondary functions and in complying with its statutory obligations. The objective of the charter is to put in place minimum performance requirements that will satisfy the postal needs of the Australian community into the next century and actively encourage Australia Post to adopt world's best practice in areas such as delivery times, the provision of retail services, mail security and postal services to people in rural and remote areas.

The Committee should consult with rural and remote users on postal service requirements and should have regard to the needs of specific community groups, such as Aboriginal and Torres Strait Islander communities, pensioners, people with disabilities and low income households.

ABBREVIATIONS

ABS	Australian Bureau of Statistics
ATSIC	Aboriginal and Torres Strait Islander Commission
BIE	Bureau of Industry Economics *(see PC)*
Bradley Report	Committee of Inquiry into the Monopoly Position of the Australian Postal Corporation
CEPU	Communications, Electrical and Plumbing Union
CPAs	Community Postal Agencies
CSOs	Community service obligations
DCA	Department of Communications and the Arts
DoF	Department of Finance
DSS	Department of Social Security
EPOS	Electronic point of sale
FBCA	Federal Bureau of Consumer Affairs
FDC	Fully distributed cost methodology
GBEs	Government Business Enterprises
GPOs	General Post Offices
HORSCOATSIA	House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs
HORSCOTCI	House of Representatives Standing Committee on Transport, Communications and Infrastructure
IC	Industry Commission *(see PC)*
ICPA	Isolated Children's Parents' Association
LPOs	Licensed Post Offices
Mason Morris Review	Post Office Review 1986 [New Zealand]
PAC	Joint Statutory Committee on Public Accounts
PC	Productivity Commission (comprised of Bureau of Industry Economics, Economic Planning Advisory Commission, and Industry Commission)
POAs	Post Office Agents

PC	Productivity Commission (comprised of Bureau of Industry Economics, Economic Planning Advisory Commission, and Industry Commission)
POAs	Post Office Agents
POAAL	Post Office Agents Association Limited
RASS	Remote Air Service Subsidy
RCAGA	Royal Commission on Australian Government Administration
RoR	Rate of return
SLAs	Statistical local areas
the Act	*Australian Postal Corporation Act 1989*
UBR	Urban Base Rate
Vernon Report	Report of the Commission of Inquiry into the Australian Post Office (1974)
Woods Report	Prime Minister's Rural and Regional Taskforce (1994)

RECOMMENDATIONS

The committee recommends that:

Community polling

1 **Australia Post conduct a polling exercise of the remaining 80 000 delivery points without a 'to the property' delivery. Those communities that vote for a 'to the property' delivery will be provided with this service.** (paragraph 3.56)

Education, health and parcel services

2 **in providing a 'to the property' delivery based on recommendation 1, Australia Post first give priority to households with students studying by distance education or with people requiring a regular supply of medicines.** (paragrph 3.74)

Services for Aboriginal and Torres Strait Islander Communities

3 **Australia Post provide community postal agencies to the 51 Aboriginal communities, greater than 50km from Australia Post retail facilities, identified in the Culvenor and Associates Report;**

4 **Australia Post and the Aboriginal and Torres Strait Islander Commission examine ATSIC's 1991 survey of Community Housing and Infrastructure Needs. Where a community is found to have a genuine need for postal services, Australia Post provide this; and**

5 **Australia Post consult with the Aboriginal and Torres Strait Islander Commission (ATSIC) and local Aboriginal communities so that new services incorporate access and equity principles and suit the needs of the community.** (paragraph 3.100)

The Retail Network

6 **Prior to any closures or post office downgradings, Australia Post give full considerations to the need to maintain adequate access to services. This should include prior notice to and consultation with the local community and the Federal Member of Parliament; and**

7 **Australia Post's annual report provide information on the number of licensed post offices (LPOs) and community postal agencies (CPAs) by urban, rural and remote zone for each State.** (paragraph 3.147)

The viability of Licensed Post Offices and Community Postal Agencies

8 **Australia Post upgrade Licensed Post Offices or Community Postal Agencies to include banking services in cases where standard banking services in a rural or remote community are closed. If necessary, the cost of this service should be included as a community service obligation; and**

9 **the Post Office Agents Association Limited (POAAL), if necessary, document the problems of Licensed Post Offices (LPOs) and Community Postal Agencies (CPAs) licensees and direct these concerns to the Minister for ameliorative action.** (paragraph 3.178)

Budgetary payments versus cross-subsidisation

10 **the current cross-subsidy provisions continue to be used as the most appropriate and administratively effective means of paying for Australia Post's Community Service Obligations; and**

11 **the Government give an undertaking to rural and remote Australia that it will not use budgetary payments as a means of paying for Australia Post's Community Service Obligations.** (paragraph 4.49)

Additional costs

12 **Australia Post be subject to the same requirements, as private sector companies, to protect heritage listed buildings;**

13 **where Australia Post retains heritage listed items, the cost of maintaining these items should be recognised through adjustment in the value of Australia Post's assets; and**

14 **Australia Post and the Department of Finance review those operations that may constitute community service obligations (CSOs). Where operations are considered to be CSOs, these should be recognised. Where operations are not considered to be CSOs, Australia Post should be permitted to treat these in a commercial sense provided that they do not in any way reduce the legislated CSOs.** (paragraph 4.70)

Performance measures

15 **Australia Post and the Steering Committee on National Performance Monitoring of Government Trading Enterprises develop performance standards for inclusion in the Australian Postal Corporation Regulations. The performance standards will contain a range of financial and non-financial indicators;**

16 **the Auditor-General, in addition to the powers set out in section 28D of the *Australian Postal Corporation Act 1989*, be given the power to comment on the appropriateness of performance targets set by Australia Post;**

17 **summaries of the Auditor-General's performance audit report into Australia Post's compliance with performance standards and Australia Post's service improvement plans should be reproduced, in Australia Post's Annual Report in the financial year after the financial year to which the reports relate; and**

18 **the initiative proposed in recommendation 3 be included as a new performance target in Australia Post's Corporate Plan.** (paragraph 5.38)

Australia Post's rate of return

19 **the Department of Finance examine and advise government about the appropriateness of Australia Post's practice of adding in the cost of community service obligations (CSOs) to arrive at a rate of return figure.** (paragraph 5.46)

Charter of responsibilities

20 **the Minister for Communications and the Arts refer to the committee a new inquiry to examine the issues relevant to a charter of responsibilities for Australia Post. The inquiry should ensure that postal users in urban, rural and remote areas are given the opportunity to contribute.** (paragraph 6.24)

Chapter One

INTRODUCTION

The reference

1.1 On 29 March 1995, the then Minister for Communications and the Arts, the Hon Michael Lee, MP, referred to the House of Representatives Standing Committee on Transport, Communications and Infrastructure terms of reference for an inquiry into Australia Post's rural and remote letter delivery services.

1.2 This reference fulfilled the then Government's commitment to give all Australians a say in what they want from their postal service. When the *Australian Postal Corporation Amendment Bill 1994* was introduced to the Parliament, the then Parliamentary Secretary to the Minister for Defence, advised that 'Australia Post's services to rural and remote communities will be subject to a parliamentary review conducted once during the life of each parliament' (Australia, House of Representatives (Debates), 9 November 1994, p.2968).

1.3 The committee had not reported when the House of Representatives was dissolved on 29 January 1996. The reference was reappointed by the Minister for Communications and the Arts, Senator the Hon Richard Alston, by letter of 14 June 1996 to the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform.

1.4 The new terms of reference omitted the requirement for the committee to examine whether any further reduction in Australia Post's reserved letter service would diminish Australia Post's capacity to maintain and/or increase its Community Service Obligations (CSOs) to rural and remote communities. The new terms of reference, however, included a new part on the development of a charter of responsibilities for Australia Post.

1.5 The focus of the inquiry is Australia Post's community service obligations. A community service obligation arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis. Australia Post's community service obligation is to provide, to all Australians wherever they reside, universal access to a letter service at a uniform rate of postage, currently 45 cents. Australia Post has a level of reserved letter service protection, set at four times the standard letter rate, from which revenue is used to pay for the delivery of its community service obligations.

Inquiry issues

Rural and remote areas

1.6 Over 70 percent of Australia's population reside in urban areas, 26 percent in rural areas and three percent, or fewer than 200 000 households, live in remote areas. Slightly more than 85 percent of Australia is officially classified as remote. More than 99 percent of the country is classified as rural and remote.

1.7 These figures are used by Australia Post and based on a metropolitan, rural and remote area classification developed and approved by the Department of Primary Industries and Energy and the Department of Human Services and Health. The classification system uses a 'remoteness index', which takes into account the areas' population density and its distance from specified-sized urban centres. Under this classification system:

- **Metropolitan** areas comprise capital cities and other metropolitan centres with urban population centres of 100 000 or more, such as Geelong, Canberra, Queanbeyan, Gold Coast Tweed Heads, Newcastle and Wollongong.

- **Rural zones** are all statistical local areas (SLAs) with a remoteness index of up to 10.5. They comprise three categories: large rural centres with populations between 25 000 and 99 999, such as Albury Wodonga, Ballarat, Bendigo and Cairns; small rural centres with populations of 10 000 to 24 999, such as Armidale, Morwell, Broken Hill, Coffs Harbour; and other rural centres with populations of more than 10 000, such as Corowa, Benalla, Huon and Ulverstone.

- All **remote zones** have SLAs with a remoteness index of more than 10.5. They comprise remote centres with populations between 5 000 and 9 999 people, such as Broome, Alice Springs, Mt Isa, Bowen and other remote areas with populations of up to 5 000, such as Walget, Kaniva, Tanami and Tennant Creek.

1.8 Figures from the Australian Bureau of Statistics also have been used. These figures show that at the 1991 census, Australia's urban population accounted for about 85 percent of the population. In addition, census figures show that the rural population had been slowly growing since 1976 when the rural population formed 13.9 percent of the population. At the 1991 census, this figure had moved up to 14.6 percent.

1.9 The population density in remote Australia is fewer than one person per square kilometre, making outback Australia one of the least densely populated places in the world.

1.10 Against this geographic setting, and with the needs of rural and remote communities taking priority, the committee examined Australia Post and its capacity to maintain and/or increase its community service obligations to these communities.

Conduct of the inquiry

Committee of the 37th Parliament

1.11 For the purpose of the inquiry and under standing order 28B, paragraph (c), Mr Paul Neville, MP and Mr Harry Woods, MP, joined the committee.

1.12 The inquiry was advertised nationally on 8 April 1995 in the *Weekend Australian* and invited submissions from interested persons and organisations. In addition, the committee wrote to government agencies and State Governments seeking submissions.

1.13 Over 240 submissions were received and these are listed at Appendix One. The submissions came from individuals, non-government organisations, State Governments and Commonwealth agencies. Submissions from individuals often raised issues about local matters such as delivery frequency and mailing times. As the submissions were authorised for publication, Australia Post responded to, and sought to resolve, complaints raised in the submissions. The committee also received eleven exhibits which are listed at Appendix Two.

1.14 At the commencement of the inquiry, the committee, of the 37th Parliament, received a briefing from Australia Post on its operations and provision of services to people in rural and remote areas.

Public meetings

1.15 In order to seek the views of people in rural and remote areas, the committee, of the 37th Parliament, held a series of public meetings. The meetings were normally of two hours duration and were conducted in Horsham, Mildura, Broken Hill, Armidale, Grafton, Kingaroy, Mount Isa, Tennant Creek, Yuendumu, Alice Springs, Leigh Creek, Broome, Nullagine, Geraldton, Albany and Leonora.

1.16 Representatives of Australia Post, and the Communications, Electrical and Plumbing Union attended the public meetings and assisted in the debates by providing information on Australia Post's operations, level of services and human resource issues.

1.17 In conjunction with the public meetings, the committee organised to have meetings with representative groups and inspections of Australia Post facilities. At Broken Hill, the committee inspected, and received advice from representatives of, the School of the Air. At Alice Springs, representatives of the Isolated Children's Parents' Association briefed the committee.

1.18 In order to increase representation from the Aboriginal and Torres Strait Islander community, the committee had meetings with representatives of the Aboriginal and Torres Strait Islander Commission in Tennant Creek and representatives of the Central Land Council in Alice Springs.

1.19 During the visits to rural and remote communities, the committee inspected and observed the operations of Post Offices in Broken Hill, Armidale and Albany.

1.20 The committee would like to place on record its appreciation for the support provided by the then Minister for Defence, Senator the Hon Robert Ray, for giving approval for the committee to use the VIP aircraft service. Through this service, the committee maximised its use of time and visited a wide range of rural and regional centres.

1.21 Evidence was taken at public hearings in Canberra during September and October 1995. A list of witnesses who gave evidence at those hearings is provided at Appendix Three.

1.22 Copies of the transcripts of evidence from the public hearings, volumes of submissions and exhibits are available from the committee secretariat and for inspection at the National Library of Australia.

Committee of the 38th Parliament

1.23 As the majority of evidence for the inquiry was collected during the 37th Parliament, the new committee did not consider it necessary to re-advertise the new terms of reference. As such, the terms of reference were announced through a press release and distributed by direct mailing.

1.24 The committee received a briefing from Australia Post on its operations and new issues arising since the start of the inquiry in the 37th Parliament such as the development of a charter of responsibilities.

1.25 In order to collect evidence on the term of reference relating to the charter of responsibilities, the committee conducted a public hearing in Melbourne in July 1996.

Structure of the report

1.26 Chapter Two gives a brief overview of Australia Post's history, major reforms and its current operations. Particular discussion is given to the changes arising from Australia Post becoming a government business enterprise in 1989 and reductions to its reserved letter service, on 1 January 1995.

1.27 Chapter Three examines the need for and extent of Australia Post's community service obligations (CSOs). In particular, delivery frequency standards are assessed and attention is given to approximately 80 000 households which do not have a delivery service. The feasibility of extending Australia Post's CSOs to include education, health and parcel services is discussed. In addition, the committee examines ways and means of improving postal services for Aboriginal and Torres Strait Islander communities. In addition, Chapter Three discusses Australia Post's services to the community focusing on mail contractors and the operation, viability and community importance of Licensed Post Offices (LPOs). Operators of LPOs raised concerns, at the public meetings, about their viability if they lost agency services or Australia Post was exposed to further competition.

1.28 While Chapter Three shows that there is a need for CSOs, Chapter Four focuses on the costs and methods of funding Australia Post's CSOs. CSOs can be funded through direct budgetary payments or, as is the case with Australia Post, through cross-subsidy provisions. The various methods of calculating a dollar value of CSOs is also examined. In addition, this chapter compares the legislative definition, and community perceptions, of CSOs.

1.29 Chapter Five discusses the need for, and development of, effective financial and non-financial performance measures to monitor Australia Post's performance. In particular, performance measures proposed will help to assess the effectiveness of Australia Post in delivering its CSOs.

1.30 Chapter Six considers the need for a charter of responsibilities for Australia Post. The discussion first looks at the purpose of charters and their growing use in guiding the delivery of government services.

1.31 Chapter Seven assesses the appropriateness, efficiency and effectiveness of the Remote Air Service Subsidy (RASS) Scheme. This scheme is operated by the Department of Transport and Regional Development.

1.32 Chapter Eight addresses future issues. These include the imminent review of Australia Post's reserved services as part of the Competition Principles Agreement. As the committee has commented on the need for and extent of Australia Post's CSOs it is necessary to comment on Australia Post's future operating environment. Increasing competition and the growth of communication technologies will have an impact on how Australia's future postal services are delivered.

Chapter Two

AUSTRALIA POST

Introduction

2.1 Australia Post has been the subject of numerous inquiries, the first in 1910 and the most recent by the Industry Commission in 1992. In the more recent inquiries, the major issue was Australia Post's efficiency and effectiveness under its monopoly status. In 1982, the Bradley Report recommended that the then Australia Postal Commission's monopoly continue with some minor changes (Bradley 1982, p.77). In 1992, the Industry Commission also examined Australia Post's monopoly status but failed to convince the Government to have it removed.

2.2 Through its history, Australia Post has experienced organisational and legislative change. One of the most significant changes occurred with the introduction of the *Australian Postal Communication Act 1989* (the Act). The Australian Postal Commission was renamed the Australian Postal Corporation. Australia Post remained as a statutory corporation but gained a separate Board of Directors and removal from day to day ministerial control. This process of commercialisation aimed to bring Australia Post more into line with private sector competitors and subject it to the disciplines of the marketplace.

2.3 While Australia Post is a government business enterprise with commercial objectives, the Government has legislated that it will provide a minimum level of service which is defined under its community service obligations in section 27 of the Act. In return, certain postal services, provided for under section 29 of the Act, are reserved to Australia Post. Australia Post cross-subsidises the less profitable areas of its network.

2.4 Australia Post's financial performance since 1989 has been favourable. In 1989–90, the Government received a dividend of $1 million from Australia Post increasing to $120 million in 1994–95.

History and recent reviews

2.5 The first postal service in Australia originated in Sydney in 1809. Following this, postal services were developed in each of the States until 1 March 1901. At this time, the administration of all postal and telegraphic services came under the jurisdiction of the Commonwealth Government. Section 69 of the Constitution provides for the transfer of certain public services, including posts, telegraphs and telephones, in each State to transfer to the Commonwealth. Section 51(v) of the Constitution gives the Parliament of the Commonwealth of Australia the power to make laws with regard to 'Postal, telegraphic, telephonic and other like services'.

2.6 The amalgamation of the various State postal services into one organisation proved a difficult exercise. Accordingly, the Commonwealth Government, in 1908, established a Royal Commission to inquire into and report on the postal, telegraphic and telephonic services of the Commonwealth. The inquiry examined management, finance and organisation of the postal and telegraphic services. In addition, the inquiry examined the extension of services into rural and remote areas of the country.

2.7 Australia Post's monopoly was originally provided for under section 98 of the *Post and Telegraphic Act 1901*. The Postmaster-General's Department was granted reserved services protection to carry all letters weighing up to one pound (500 grams) (Industry Commission 1992, p.25).

2.8 The monopoly provisions were similar to arrangements introduced in Britain in 1837. Reforms of the British postal system in 1837, proposed by Roland Hill, included the introduction of a uniform postage rate for letters irrespective of the distance between the place of posting and the place of delivery. Hill considered it was more efficient to have a uniform price as previously 'there were intricate charging scales and these tended to inflate operating costs because of the number of officials needed to apply those charges' (Bradley 1982, p.38).

2.9 One of the important decisions stemming from the 1908–10 Royal Commission was the introduction of 'penny postage' which was introduced as a uniform letter rate throughout the Commonwealth.

2.10 Further inquiries into Australia Post took place in 1915, 1919, 1954, 1959, 1974, 1982 and 1992. The Vernon Inquiry of 1974 was notable as its major recommendation resulted in the separation of postal and telecommunications functions. Australia Post became a separate entity under the *Australian Postal Services Act 1975.*

2.11 The 1982 report by the Committee of Inquiry into the Monopoly Position of the Australian Postal Commission (the Bradley Report) commented that previous inquiries 'focused mainly on revisions to financial arrangements. There had been little reassessment of the principles of universal availability and uniform pricing of the standard postal article service' (Bradley 1982, p.21).

2.12 The Bradley Report specifically addressed the issue of Australia Post's monopoly status. The Report concluded that the monopoly status and cross-subsidy structure should be preserved. The Bradley Report stated that:

> ... the Postal Commission's revenue base would, in the Committee's opinion, be threatened, and probably seriously eroded, if its present monopoly protection for letters was abolished. ...if there were more than say two such tariffs, the additional administrative costs involved would outweigh the benefits. In addition, the Postal Commission would be subject to competition for its lucrative markets from organisations with cost structures which the Commission could not match without substantially restricting the standards of service available now to many sectors of the community (Bradley 1982, p.47).

2.13 The Bradley Report did, however, recommend some relaxation of Australia Post's monopoly position, and changes to its financial and reporting requirements. The *Postal and Telecommunications Amendment Act 1983* provided that Australia Post's reserved letter protection would be set at 10 times the standard letter rate. This meant that private operators could compete with Australia Post for the carriage of articles which were greater than 10 times the highest postage applicable.

2.14 In addition, the Bradley Report recommended that Australia Post's Annual Report provide separate financial details for its reserved and non-reserved services. The Industry Commission commented that the 'Bradley recommendations played an important role in shaping reform of Australia Post in the 1980s, a process which gained considerable momentum via the Commonwealth Government's 1988 GBE reform program' (Industry Commission 1992, p.252).

The 1988 Government business enterprise reforms

2.15 In May 1988, the Government released the report, entitled *Reshaping The Transport And Communications Government Business Enterprises*. The initiatives were part of the Government's microeconomic reform agenda for restructuring the public sector. Government business enterprises (GBEs) in the transport and communications sector, including Australia Post, would be given more flexibility so as to respond more rapidly to changes in the market. The then Minister for Transport and Communications Support, the Hon Peter Morris, MHR, stated:

> The transport and communications enterprises need, more than ever before, flexibility and the ability to respond rapidly to changes in the market and take up opportunities as they present themselves (Parliamentary Debates (Hansard), House of Representatives, 25 May 1988, p.3028).

2.16 The reforms included new planning and accountability mechanisms including requirements for corporate plans and the setting of financial targets. Revised corporate and financial structures were introduced for most GBEs so as to better reflect the new economic and commercial environment in which they were operating. In addition, virtually all government operational controls were removed.

2.17 As part of the 1988 reforms, the Australian Postal Commission was renamed the Australian Postal Corporation and came under new legislation along the lines of the Federal Airports Corporation. The *Australian Postal Corporation Act 1989* incorporated the reforms outlined in the report *Reshaping the Transport and Communications Government Business Enterprises.*

Australian Postal Corporation Act 1989

2.18 The *Australian Postal Corporation Act 1989* (the Act) replaced the *Australian Postal Services Act 1975*. The Act redefined Australia Post's powers and functions and provided for the implementation of a new capital and financial structure and establishment of new planning and accountability mechanisms. The then Minister for Transport and Communications, the Hon Ralph Willis, MP, commented that the 'Government sees the commercialisation of GBEs as a necessary and fundamental precondition to improvements in efficiency' (Australia, House of Representatives (Debates), 13 April 1989, p.1610).

2.19 In particular, the new Act modified major strategic controls and removed day to day ministerial controls. The Act clarified the role of the Government as owner, and outlined the responsibilities of the Board of Directors. In the Act, Australia Post became subject to taxation under State and Territory laws from 1 July 1989. Section 54 of the Act provides for the payment of dividends to the Commonwealth.

2.20 On the service side, the Act emphasises Australia Post's principal role as a provider of domestic postal services with the addition of subsidiary functions to allow it to engage in other businesses or activities within and outside Australia related to postal services (Australia, House of Representatives (Debates), 13 April 1989, p.1610).

2.21 In the *Australia Postal Services Act 1975*, 'letter' was not defined and this made it difficult to mount prosecutions. As such, the 1989 Act defined 'letter' and specified that Australia Post has the right to carry letters in Australia, and between Australia and overseas. Services which Australia Post has the exclusive right to are termed the reserved services. Australia Post has a monopoly on these services and no competition is permitted. Competition, however, is permitted in the non-reserved services.

2.22 Prior to amendments in 1994, the Act reserved the right of Australia Post to carry letters up to 10 times the standard letter rate and letters less than 500 grams. Unreserved services, in which competition was permitted, included letters exceeding 10 times the standard letter rate or weighing more than 500 grams, and the carriage of newspapers, magazines, books, catalogues and leaflets.

2.23 The level of Australia Post's reserved services received further scrutiny in 1992 through a report by the Industry Commission, entitled *Mail Courier and Parcel Services*. As a result of the recommendations in this report, the Government amended the level of reserved services through the *Australian Postal Corporation Amendment Act 1994*.

Australian Postal Corporation Amendment Act 1994

2.24 The Industry Commission's (IC) report of 1992 criticised Australia Post's monopoly provisions. The IC examined, among other matters, the scope for, and extent of, competition in the various segments of the mail, courier and parcel industry. In particular, Australia Post's level of reserved services and the cross-subsidy provisions were critically examined.

2.25 The IC was critical of the level of reserved services given to Australia Post commenting that the 'reserved services protection restricts competition in Australia Post's core business, the letter service, and gives Australia Post substantial market power' (Industry Commission 1992, p.xvii). As a result of this situation, the IC commented that 'the community forgoes the benefits which could be gained from competition in the provision of the letter service' (Industry Commission 1992, p.xvii).

2.26 The IC's preferred option was to dispense with Australia Post's reserved services and open up these services to full competition. If this option was unacceptable, then the IC recommended the continuation of the reserved services but at a reduced rate. The Government accepted the latter option and implemented the changes through the 1994 Amendment Act.

2.27 The *Australian Postal Communication Amendment Act 1994* reaffirmed the Government's social objective to make the letter service available to all Australians at a uniform rate.

2.28 Greater opportunities for competition were introduced by allowing competitors the right to carry letters exceeding four times the standard letter rate. That is, Australia Post's level of reserved services was reduced from 10 times the standard letter rate to 4 times, which is postal articles up to $1.80. In addition, competitors are able to carry letters weighing more than 250 grams, a reduction from the previous 500 grams.

Community service obligations

2.29 Australia Post's community service obligations (CSOs) are provided for under section 27 of the Act. The principal objective is the provision of universal access to a letter service at a uniform rate of postage. Australia Post's CSOs are examined in more detail in Chapters Three and Four.

Commercial obligations

2.30 Alongside Australia Post's role in providing CSOs is its requirement to act commercially. Under section 26 of the Act, 'Australia Post shall, as far as practicable, perform its functions in a manner consistent with sound commercial practice'. In addition, general governmental obligations apply which are provided for under sections 28, 48 and 49 of the Act.

2.31 Australia Post's financial performance has been extremely favourable. This improvement stems from the reforms of 1988 and the changes to the commercial and operating environment which were introduced through *the Australian Postal Corporation Act 1989.* In the second reading speech to the *Australian Postal Corporation Amendment Bill 1994,* the then Parliamentary Secretary to the Minister for Defence, the Hon Arch Bevis, MP, commented:

> In recent years, Australia Post has successfully changed from a public service entity with a poor industrial record to an efficient, profitable enterprise that operates at the forefront of world's best practice and delivery service. As a result, Australia Post enjoys strong community support, particularly in rural areas, which rely heavily on the post as a community service (Australia, House of Representatives, (Debates) 9 November 1995, p.2967).

2.32 The Industry Commission shared a similar view commenting that 'Delivery performance is better, as are productivity and financial results' (Industry Commission 1992, p.xii).

2.33 An examination of Australia Post's financial performance since 1988–89 shows the significant improvements that have been achieved. The dividend paid to the Government increased from $1 million in 1989–90 to $120 million in 1994–95. Profits, before tax and abnormals, increased from $71 million in 1989–90 to $331 million in 1994–95. Table 2.1 shows the major financial indicators for the last five years.

Table 2.1 Australia Post: financial performance 1990–91 to 1994–95

	1990–91	1991–92	1992–93	1993–94	1994–95
Revenue ($m)	2 183.5	2 310.1	2 420.7	2 568.2	2 781.9
Expenditure ($m)	2 037.3	2 131.4	2 171.3	2 281.1	2 450.3
Profit before abnormals and tax ($m)	146.2	178.7	249.4	287.1	331.6
Total assets ($m)	2 123.1	2 047.3	1 950.9	2 022.8	2 216.9
Return on assets (after CSOs) (%)	9.7	11.1	14.8	17.6	18.7
Total taxes and government charges ($m)	187	242	273	227	254
Full-time employees	34 843	33 605	31 934	31 130	31 621
Dividend ($m)	25	50	62	90	120

Source Australia Post, *Annual Report*, 1994–95, p.64.

2.34 In 1994–95, not only did Australia Post pay tax of $92.9 million, a dividend of $120 million, but also repaid $125 million of capital to the Federal Government as part of a commercial balance sheet restructuring program (Australia Post *Annual Report* 1994–95, p.3).

Retail services

2.35 Australia Post's retail network is one of the largest in Australia. As at 30 June 1995, there were 4 317 retail outlets, with an estimated 800 000 customers per day. Australia Post's retail policy is 'to provide a retail network which will ensure that Australia Post's letter, and related, services reach our customers in a way that meets our community service obligations, offers a high level of quality customer service and is profitable' (Submission 104, submissions p.240).

2.36 The provision of retail services is indirectly related to Australia Post's CSOs. While elements of the retail network are not mentioned in the Act, the network is vital to providing reasonable access to the letter service and, as such, supports the delivery of CSOs. Retail services provide access to the letter service, stamp availability, postage assessment and acceptance and posting (Submission 104, submissions p.241).

2.37 Australia Post provides a range of other services through its retail network including financial facilities such as bill payment, banking services, money orders and electronic lodgment of tax returns. In addition, Australia Post conducts Passport interviews on behalf of the Department of Foreign Affairs and Trade, provides a fax service and sells postal related products.

2.38 The availability of bill payment services is being extended. In 1994–95, bill payments increased by 34 percent with revenue up by 22 percent. Of all Telstra bills, 65 percent were paid through Australia Post, with gas and fuel bills reaching 70 percent (Australia Post 1995, p.32).

2.39 The range of banking services provided through Australia Post is increasing. The Commonwealth Bank of Australia has had an arrangement with Australia Post since 1916 to provide some banking services to customers. In July 1995, Australia Post extended the range of banks operating through its network with the introduction of *giroPost*. In addition to the Commonwealth Bank, customers now have access to Citibank, Challenge Bank, Advance Bank, Adelaide Bank, Metway Bank, Bendigo and Home Building Society.

2.40 As part of its ongoing commercialisation and efficiency improvements, Australia Post has a strategy in place, known as Retail Post, to modernise its retail network and reduce losses. In 1990–91, losses in retail services amounted to $80 million. Australia Post attributes this to the age of its buildings, many of which were built before 1914 and the majority before 1939. Urban Development and population movement since this period have acted to 'move' people away from these historical post offices often located in 'high street' sites, often lacking adequate carparking sites, and away from modern shopping areas.

2.41 Australia Post has attempted to improve its retail operations by separating retail services from delivery services and then splitting retail services to provide services for business and private customers whose needs are often different. Australia Post reported that 'retail outlets are being located in convenient shopping areas, while business and delivery centres are positioned in lower-cost industrial or commercial locations' (Australia Post 1995, p.31).

2.42 The retail network consists of a range of different outlets specialising in different services. The network comprises postshops, business centres, traditional postal outlets, community postal agencies and postpoints.

Postshops

2.43 Postshops provide access to a full range of stamps, post-related products and agency services for private customers in a modern self-selection environment. During 1994–95, postshop numbers increased by 231, bringing the total to 449. By the end of 1996–97, 870 postshops will be operational (Australia Post 1995, p.31).

2.44 The postshop format represents the future of Australia Post retailing. They are located mostly in major retail destinations and primarily service domestic customers (Submission 104, submissions p.244).

Business centres

2.45 Business centres specialise in providing services to business customers. They provide improved access, such as drive in facilities, for the lodgement of bulk mail such as magazines and advertising material, post office box clearance and postal product purchases. In 1994–95, business centre numbers increased from 75 to 100.

Traditional Postal outlets

2.46 Traditional post offices are the original type of post office in which services are purchased over the counter by both domestic and business customers. The larger postal outlets are corporately owned with the small shops operated by licensees. The latter post offices are termed Licensed Post Offices (LPOs). Progressively, Australia Post plans to convert all corporately run post offices and the larger LPOs to postshop formats (Submission 104, submissions p.245).

Community postal agencies

2.47 A community postal agency (CPA) is the most basic postal agency mainly providing services in rural areas. Services include access to postage stamps, postage assessment and lodgement and access to other services when there is sufficient demand. Many CPAs are also responsible for mail deliveries (Submission 104, submissions p.246).

Postpoints

2.48 A postpoint facility is a self-serve unit selling stamps and other products such as aerograms and envelopes. Near most postpoints are posting facilities.

2.49 Table 2.2 shows the number of Australia Post's retail outlets by type as at June 1995.

Table 2.2 Australia Post's national retail network June 1995

Retail Outlet Type	Number
Corporate Post Offices	449
Licensed Post Offices	2 822
Post Shops	582
Business Centres	101
Community Mail Agencies	363
Total retail outlets	**4 317**
Other Stamp Outlets	
Postpoints	818
Licensed stamp vendors	11 469
Self-serve vending machines	114
Total stamp outlets	**12 401**
Grand Total	**16 718**

Source Submission 104, submissions p.244

Access to postal outlets

2.50 Australia Post reported that, when reviewing the retail network, it consults with users to maximise customer satisfaction. In 1994–95, consumer research showed that 80 percent of customers were satisfied with their access to postal outlets. Where postal arrangements were changed, 83 percent of customers indicated their satisfaction (Australia Post 1995, p.32).

2.51 Australia Post has examined population dispersion and overlayed this with its retail postal outlets so as to determine consumer access to the postal retail network. The analysis showed that:

- nationally, 90 percent of households live within 2.5km of a postal outlet; and
- in rural and remote areas, about 75 percent of households live within 7.5km of a postal outlet (Submission 104, submissions p.246).

2.52 Of the total number of retail outlets in Australia, 54 percent are located in rural and remote areas, and 45 percent of mail lodgement points are located in these areas. These outlets serve 29 percent of Australia's population (Submission 104, submissions p.246).

Delivery services

2.53 Australia's geography, its size, distances between capital cities and spatial location of its population indicate the enormity of providing an efficient postal delivery network. Against this setting, Australia Post provides a delivery network which is reasonably accessible to everyone no matter where they live and work. Australia Post delivers to 7.67 million delivery points throughout Australia. Of this number, 2.27 million delivery points are in rural and remote areas. Of this number, 73 percent or 1.65 million households receive a 'to the property delivery'. The remaining 27 percent or 612 000 households receive alternative delivery services (Submission 104, submissions p.227).

2.54 The type of delivery reflects the consumer's location, their preference, cost considerations and the presence of an adequate transport infrastructure. There are five major forms of mail delivery namely, street mail deliveries, roadside delivery, private boxes, community bags and counter delivery (Submission 104, submissions p.228).

Street mail deliveries

2.55 Street mail delivery occurs in high density areas where there are at least 150 delivery points within 1.2km of a Post Office and where the average letter volume is at least 225 articles per day. The delivery frequency is five days a week.

Roadside delivery

2.56 Roadside delivery services are provided in low density areas, mainly rural and remote, where there are at least five households located further than 1.2km from a Post Office. These deliveries are provided by a contractor. Some deliveries, in remote areas, are made by aircraft where road transport infrastructure is poor or not provided. The delivery frequency, subject to cost, ranges from one to five days per week (Submission 104, submissions p.229).

Private boxes

2.57 Private boxes are located at postal outlets. They provide security, early delivery, 24 hour access seven days. In rural and remote areas, customers receive a concessional rate if they would otherwise receive a delivery service of less than two times per week. Australia Post reports that in many cases, rural and remote customers prefer this type of service (Submission 104, submissions p.229).

Community bags

2.58 Community bag services are provided to a local community where there are no roadside deliveries. The community bag provides an inward and outward mail service.

Counter delivery

2.59 This service is provided where customers request that their mail be held at a Post Office counter for collection. Where roadside delivery is not available, counter service is automatically provided (Submission 104, submissions p.229).

Delivery schedules

2.60 In 1991, Australia Post introduced a delivery schedule based on a closing time of 6.00 pm, excluding some rural and remote areas that may be affected by local transport requirements. Table 2.3 shows delivery schedules by mail path.

Table 2.3 Delivery schedules by mail path

Mail path	Delivery time (Business days after lodgement)
Intrastate	
Within capital cities' metropolitan areas	1
Metropolitan to country	2
Country to country	2
Interstate	
Metropolitan to metropolitan	2
Metropolitan to country	3
Country to country	4

Source Submission 104, submissions p.232

2.61 Australia Post's delivery schedules are independently monitored by KPMG. Performance is measured from the point of posting to the point of delivery. Every month KPMG sends 22 000 to 28 000 letters through the Australia Post delivery network. All mail paths are surveyed including rural and remote areas. In 1994–95, 93.6 percent of standard letters, on a national basis, were delivered on time and 98.8 of letters were delivered within one additional day (Australia Post, *Annual Report*, 1994–95, p.24).

Delivery frequency and the urban base rate system

2.62 Delivery frequency is calculated using a cost standard called the urban base rate system (UBR). The UBR 'is the estimated national average annual cost of delivering mail to homes/businesses in metropolitan areas' (Submission 104, submissions p.230). The annual UBR in 1995 was $93. That is, the cost of delivering mail to a home or business in an urban area is estimated to cost $93 per year. As the cost of delivery increases, such as in rural and remote areas, the delivery frequency decreases. Table 2.4 shows how as the UBR increases, delivery frequency decreases.

Table 2.4 The urban base rate system and delivery frequency

UBR multiple	Cost $	Delivery frequency
2	up to 186	5
2–3	187 to 279	3
3–8	280 to 744	2
8–13	745 to 1 116	1
13–26	1117 to 2416 (*Special circumstances*)	1

Source Submissions 104, 218, submissions pp.230, 816

2.63 Table 2.4 shows that where the urban base rate is twice the value of $93, five deliveries per week will be made. When the UBR increases to between two and three times, then delivery frequency decreases to three times.

2.64 Australia Post commented in a supplementary submission that it has removed 'the automatic linkage between the frequency of delivery to rural and remote customers, and the cost of providing delivery in metropolitan areas and to incorporate annual increases to frequency values' (Submission 218, submissions p.816). In addition, the dollar cost values will be increased annually on the basis of change to the cost of labour and fuel.

2.65 In Table 2.4, where the UBR is in the range 13 to 26, special circumstances apply. This may include where children in a household are undertaking educational correspondence, the service is the only means of providing regular medical supplies, other communications systems, such as telephone, are not available and roads are untrafficable for parts of the year (Submission 104, submissions p.231). In each of these cases, the General Manager in each State has the power to provide a delivery service when the cost of delivery approaches 26 times the UBR.

Aboriginal and Torres Strait Islander communities

2.66 Many Aboriginal and Torres Strait Islander communities are dispersed, located in extremely remote areas and can be transient. As such, the provision of mail services is made more difficult. The Aboriginal and Torres Strait Islander Commission (ATSIC) commented that 'there are 98 discrete communities and 445 outstation/homeland communities, many of which have significant and stable populations, that do not have access to a regular mail service' (Submission 186, submissions p.593).

2.67 A survey conducted for Australia Post showed that there were 15 000 Aboriginal and Torres Strait Islanders in 51 communities greater than 50km from an Australia Post retail facility. These communities were mainly in Northern Territory and north Western Australia (Submission 218, submissions p.823). Australia Post commented, in a supplementary submission, that it is consulting with each of these 51 communities with a view to establishing a Community Postal Agency if postal services are not already present.

2.68 The level and quality of postal services provided to ATSIC communities is examined in more detail in Chapter Three.

Chapter Three

THE NEED FOR AND EXTENT OF AUSTRALIA POST'S COMMUNITY SERVICE OBLIGATIONS

Introduction

3.1 Australia Post's community service obligation (CSOs) is to supply a letter service. The letter service should be reasonably accessible to all people in Australia and be available at a uniform rate of postage, which is currently 45 cents.

3.2 Historically, the letter service was the primary means by which people could communicate. Through the mail service, people from all parts of the country, particularly rural and remote areas, were linked with each other. Australia's mail service, like many other nations, has played an important role in the development of the nation.

3.3 The provision of a letter service to people in rural and remote areas is much more costly than providing the same service in urban areas. Since 1910 when 'penny postage' was first introduced as a uniform letter rate throughout the Commonwealth, governments have been committed to a uniform postage rate for standard postal articles.

3.4 Since Federation, and the birth of Australia as a nation, the need for the uniform letter service could be defended on the basis of the social, industrial and commercial needs of communities and the development of the nation. In modern times, however, does the same need for Australia Post's CSOs remain? Other forms of communication such as telephones, facsimiles, electronic mail and internet also serve to 'link' the nation much in the way the letter service did in the early part of the century.

Community Service Obligations

3.5 Australia Post's community service obligations (CSOs) are a form of social service provided to the Australian community. CSOs help to define the role of Australia Post in the community. The Vernon Report examined two views on the role of Australia Post. First, is the view that Australia Post 'is essentially the supplier of a social service and it should provide a service wherever there is a demonstrated community need and any shortfall between revenue and costs should be met by contributions from public money' (Vernon 1974, p.53).

3.6 The second view of a mail service is that it is a commercial operation with a focus on achieving efficiency and effectiveness. The Vernon Report commented that the minimum overall objective, under this view, is 'matching revenue with expenditure' (Vernon 1974, p.53).

3.7 The role of Australia Post, today, is both social and commercial. It has an obligation to provide social obligations in the form of a letter service at a uniform rate of postage throughout Australia, and operate commercially. Both these obligations are covered in the Act.

3.8 The Joint Committee of Public Accounts described CSOs as a 'mechanism that has been developed to guarantee access for all to essential services' (Public Accounts Committee 1995, p.72). A generally accepted definition of a CSO is:

> A Community Service Obligation arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not require other businesses in the public or private sectors to generally undertake, or which it would only do commercially at higher prices (Steering Committee on National Performance Monitoring of Government Trading Enterprises 1994, p.49).

3.9 Other government business enterprises (GBEs) providing CSOs include Telstra, the Australian Maritime Safety Authority, and the Australian Quarantine and Inspection Service.

3.10 Australia Post's CSOs are provided for under section 27 of the Act.

> (1) Australia Post shall supply a letter service.
>
> (2) The principal purpose of the letter service is, by physical means:
>
> (a) to carry, within Australia, letters that Australia Post has the exclusive right to carry; and
>
> (b) to carry letters between Australia and places outside Australia.
>
> (3) Australia Post shall make the letter service available at a single uniform rate of postage for the carriage within Australia, by ordinary post, of letters that are standard postal articles.
>
> (4) Australia Post shall ensure:
>
> (a) that, in view of the social importance of the letter service, the service is reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business; and
>
> (b) that the performance standards (including delivery times) for the letter service reasonably meet the social, industrial and commercial needs of the Australian community.
>
> (5) In this section:
>
> **"Australia"** includes Christmas Island and Cocos (Keeling) Islands, but does not include any other external Territory to which this Act extends.

3.11 Australia Post fulfils its CSOs by providing a letter service at a uniform rate, which is currently 45 cents, across Australia. In doing this, Australia Post is providing a service it would not do on a commercial basis, because the carriage of letters to and from rural and remote areas would exceed the cost of the standard letter rate.

3.12 The reserved services guarantee Australia Post the ability to generate revenue in which it can cross-subsidise the loss making areas of its network. While some groups within Australia are receiving a subsidy, other groups are paying more for a standard letter than what they would in a competitive environment. When the *Australian Postal Corporation Amendment Bill 1994* was introduced to the Parliament, the then Secretary to the Minister for Defence, the Hon Arch Bevis, MP, commented, in the second reading speech:

> Community service obligations will continue to be funded by a cross-subsidy on the letter service. This is an efficient and equitable approach that shares the cost of providing the service among all postal users (Australia, Parliamentary Debates (Hansard), House of Representatives, 9 November 1994, p.2969).

3.13 The provision of CSOs involves a subsidy to some users. While there is a letter service throughout Australia at a uniform rate of 45 cents, the actual cost of providing the service can vary, depending on the region. For example, delivering a standard letter from Sydney to Nullagine, in the Western Australian outback, would, in a competitive environment, cost more than 45 cents. The reserved services allow Australia Post to make a profit on some mail paths so it can cross-subsidise the losses incurred on other mail paths.

3.14 Australia Post provides its CSOs through a range of facilities and processes. First, is its retail network through which customers can buy stamps and have postage assessment. Second, is the network of post boxes through which postal items can be lodged. Third, is the delivery network which includes private boxes, delivery staff and contractors.

The need for community service obligations

3.15 The commitment to provide a universal letter service at a uniform rate of postage is tied in with historical reasons and with existing need. Australia has had a letter service with a uniform rate of postage since 1910. From the origins of the postal service it was regarded as a 'means of achieving a degree of national unity enabling all members of the community, regardless of location, to communicate at a reasonable cost' (Bradley 1982, p.21).

3.16 The Bradley Report suggested that the development of the national postal service was seen as a community service and 'there was virtual unanimity that uniform and inexpensive postal rates were necessary'. In addition, the cross-subsidy arrangements whereby the profitable mail paths would subsidise the less profitable ones 'was recognised clearly' (Bradley 1982, p.21). The Bradley report stated:

> ... it was put to the inquiry, particularly by the Governments of the less populous States, that the Postal Commission is still an important vehicle for assisting national development and compensating those people who choose to live in remote areas for some of the disadvantages associated with that choice (Bradley 1982, p.21).

3.17 The previous comments suggest that the postal service is a form of social service. This view, however, has been challenged. Senior (1983) argues that people make a choice where to live and in choosing an urban or rural location they accept the cost differences associated with that choice. For example, transport and housing costs in rural areas will be different compared to urban locations. Senior states:

> Why then, if he chooses a rural retreat with a long drive, should he expect—apparently as a right—to pay the same postage as another postal user who has opted to live in an accessible urban block of flats? People make decisions about location in the light of a set of price signals. There is no reason why postal price signals should be excluded (Senior 1983, p.25).

3.18 In contrast to Senior's views, the Premier of Tasmania, the Hon Ray Groom, MHA, commented, in a submission to the inquiry, that Tasmania 'would be disadvantaged if the community service obligations of Australia Post were altered in any way to reflect the real cost of postal services' (Submission 199, submissions p.621). The Government of New South Wales stated 'that it is in the public interest that Australia Post's community service obligations in this area are maintained and strengthened' (Submission 208, submissions p.682).

3.19 The Western Australian Minister for Education, the Hon Norman Moore, MLC, commented that while 'the State Government currently operates a country mail delivery service for government agencies, many of the smaller rural towns and those in remote areas can only be serviced by Australia Post' (Submission 206, submissions p.669). The Northern Territory Government stated:

> ... the provision of a letter service of a single rate is the right of every Australian. Consequently, the Community Service Obligation under Section 27 of the Australian Postal Corporation Act 1989 is fully supported (Submission 204, submissions p.665).

3.20 Community support for the need for Australia Post's CSOs is shown through surveys and evidence received by this inquiry. Australia Post commented, in a recent survey it conducted, that '93 percent of those surveyed agreed with the uniform price approach' (Transcript, p.237). Evidence received in submissions to the inquiry supported this view. P Cross of Pilliga, NSW, commented:

> ...the mail service is very reliable. Under no circumstances do we need any lessening of the present service (Submission 169, submissions p.504).

3.21 The views expressed above were typical throughout the submissions and the evidence taken at public meetings. At the same time, there were no explicit proposals that the CSOs were not important nor were there suggestions that people in rural and remote areas pay the true cost of a letter service.

3.22 Section 27(4)(b) of the Act states that the 'letter service reasonably meet the social, industrial and commercial needs of the Australian community'. In the submissions, there was considerable support for the postal service and the contribution it makes to rural and remote communities. Mr Max Keith of Taralga, NSW, commented:

> The Australian rural community is our largest export earner. The Taralga-Golspie people make a significant contribution to these export earnings.
>
> These people need as much encouragement as is possible, to ensure they remain a viable factor in their contribution to the well being of all Australians.

> Further cost cutting by Australia Post will only serve to nullify the efforts of this farming community and would be a retrograde step for Australia (Submission 100, submissions p.190).

3.23 In a similar vein, S Hopkins, of Clandulla, NSW, commented that 'we rely very greatly on the Postal System for communications with family and friends all over Australia' (Submission 14, submissions p.22). A Saal, of Wandoon, Qld, commented on 'how important our country mail service is and that it stays the way it is now' (Submission 156, submissions p.476).

3.24 There is no quantifiable evidence showing the value that the letter service provides in meeting the industrial and commercial needs of rural and remote communities. It is apparent, however, that many business operations would be hampered without the mail service. For example, the transmission of bills and accounts is mainly through the postal service. A large proportion of bill paying is also conducted through the postal service. The Isolated Children's Parents' Association (ICPA), Western Australian Branch suggested that a minimum weekly service is necessary for on time payment of bills. The ICPA commented that 'isolated people frequently receive accounts payable within seven days after the due date, often incurring interest on the outstanding amount' (Submission 142, submissions p.435). In addition, the ICPA commented that the postal service was the only way to receive trade and industry magazines and newsletters.

3.25 Even with the growth of other communication technologies, the continuing need for Australia Post's CSOs was supported by the Northern Territory Government which commented:

> ... remote areas of Northern Territory still rely heavily on parcel and courier services. The newer forms of information technology are reducing some of the impact of isolation in remote communities (eg. facsimiles, satellite technology, electronic mail) but these have their limitations. Where the delivery of educational materials, medical equipment, prescription drugs etc, is involved, this is still largely an issue of efficient, secure and appropriate physical transportation (Submission 204, submissions p.655).

3.26 The Bureau of Industry Economics (BIE)[1] also commented on the need for Australia Post's CSOs. The BIE acknowledged that, historically, the postal service had played an important role in Australia's development. At a relatively small cost, postal services provided a means for individuals, businesses and governments to communicate with one another. In addition, the BIE indicated that the services provided, historically, are 'not likely to have been made available under normal competitive conditions' (Submission 211. submissions p.692).

3.27 In more recent times, however, the BIE asked the question, that with developments in other forms of communications, is the postal service still as important as it once was? The BIE is referring to the increasing use of telephone, facsimile and electronic data interchange and commented that the 'real cost of using these technologies has declined and this trend is set to continue' (Submission 211, submissions p.692). The BIE did acknowledge that these forms of communication did not offer the capacity for the interchange of physical items.

Conclusions

3.28 Historically, Australia's postal service has been regarded as a means of linking the nation through a service which is cheap and effective. Most importantly, the postal service was provided universally to all people, whether in cities or remote locations, at a standard rate. The means of providing a uniform postage rate for a standard article, in operation since 1910, is through cross-subsidy arrangements whereby the more profitable mail paths subsidise the less profitable.

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1 The Bureau of Industry Economics joined with the Industry Commission and the Economic Planning Advisory Commission to form the Productivity Commission. At August 1996, the legislation for this merger had not been introduced into Parliament.

3.29 The need for the postal service has been assessed, particularly in light of the developments in communications technology. In addition, an assessment has been made of the view that people accept various costs differences, such as transport and accommodation, when deciding where to live and that postal services should be considered no different. This view, enunciated by Senior (1983), suggested that people in rural and remote areas should pay the true cost of postal services.

3.30 The committee rejects the view that postal services should be placed in a similar category to other goods and services in which rural and remote people are paying market value. If there are no mechanisms put in place to maintain equity then there will be no people living and working in rural and remote Australia. Rural and remote communities face pressures of isolation and poorer access to a range of goods and services compared to the urban community. The postal service helps to break down this sense of isolation. At the same time, people in urban areas benefit as they can communicate with friends and relatives living and working in rural and remote areas.

3.31 The committee, therefore, concludes that there is a continuing need for Australia Post's CSOs. It is acknowledged that other forms of communications such as the telephone, facsimile, satellite technology and electronic mail are reducing the impact of isolation, but there is still an ongoing need for the letter service to serve the social, commercial and business needs of the community. The importance of the postal service in providing educational and health materials is vital. Education, health and parcel services are discussed in a separate section commencing at paragraph 3.57.

Redefining Australia Post's CSOs

Section 27 (4)(a) of the *Australian Postal Corporation Act 1989*

3.32 Section 27(4)(a) of the Act states that 'Australia Post shall ensure that, in view of the social importance of the letter service, the service is *reasonably* accessible to all people in Australia on an equitable basis, wherever they reside or carry on business'. Some submissions criticised the inclusion of the word *reasonably* in this section on the grounds that it gives Australia Post undue flexibility in providing the letter service (Submissions 113, 135, submissions pp.320, 374).

3.33 Some submissions relate the word *reasonably* to Australia Post's power to decide formulas for delivery of community service obligations (CSOs) (Submission 135, submissions p.374). The urban base rate formula, described at paragraph 2.62, is the method through which Australia Post interprets *reasonably* with respect to delivery frequency. Essentially, as the cost of delivery increases, the frequency of delivery decreases. Thus, Australia Post is ensuring that the letter service is reasonably accessible.

3.34 The question raised by some submissions is what powers does the inclusion of *reasonably,* in the legislation, give Australia Post to reduce service standards? The Isolated Children's Parents' Association (ICPA) commented that the present definition of 'reasonable access to a letter service' is not precise and can be subjected to different interpretations' (Submission 113, submissions p.320). The Country Mail Services Working Party stated:

> The reality of the legislation is that formulas for delivery are left solely to Australia Post to decide, and that by default, these then become the 'reasonable' standards that the community must learn to cope with. Hence, under such an informal arrangement, the problems that this would give rise to with the advent of further competition become quite apparent (Country Mail Services Working Party 1994, p.6).

3.35 At July 1996, Australia Post advised that there were 80 000 delivery points 'which under existing service policies are not eligible for/do not receive a 'to the property or roadside' delivery service' (Submission 231, submissions p.958). Of this number, 5000 delivery points are residents in areas where the infrastructure is unavailable or where the cost of delivery is above the policy cost threshold. The remaining 75 000 are residents in small clustered localities, of up to 150 houses, within walking distance of a postal outlet (Submission 231, submissions p.958).

Delivery frequency

3.36 The need for people in rural and remote areas to have access to a minimum weekly service was raised in the evidence. The ICPA stated that a 'weekly mail service is important from a social viewpoint' (Submission 69, submissions p.125). The ICPA Federal Council commented that 'an acceptable frequency of mail service is at least once a week and that Australia Post should be required to provide such a service as part of its Community Service Obligations to those customers who require it' (Submission 113, submissions p.322). It was suggested that the benefits of having a minimum once a week service relate to social reasons, student education, the supply of medicines and the promotion of business and commerce.

3.37 In considering delivery frequency, the Industry Commission, in its report *Mail, Courier and Parcel Services*, recommended that 'where roadside delivery is now only once a week, it be increased to at least twice a week' (Industry Commission 1992, p.114). In 1992, there were approximately 3 000 households in this situation and the cost of increasing the service was estimated at $3.7 million. To provide a twice weekly service to all rural and remote households not receiving any delivery service, the cost was estimated at $80 to $110 million (Industry Commission 1992, p.115).

3.38 The issue of delivery frequency was considered by the Senate Standing Committee on Industry, Science, Technology, Transport, Communications and Infrastructure in its *Report on the Consideration of the Australian Postal Corporation Amendment Bill 1994*. A minority report to that report supported the Industry Commission's proposal to provide a twice weekly service where households were only receiving one (1994, p.10). The Government rejected this proposal on the grounds that it may disadvantage those households, numbering 125 000, that were not receiving any deliveries (Australia, Senate, (Debates) 19 October 1994, p.2009).

3.39 In evidence to the inquiry, there was strong support for the provision of a minimum weekly service. Dr Rolf Gerritsen commented that this 'standard accepts that the equity aspect of the stipulation—that all Australians have access to the service—is the more vital component of this CSO than is its frequency element' (Submission 135, submissions p.374).

3.40 Gerritsen suggested that all Australian should have *access* to the postal service. At the same time, section 27(4)(a) states that the service is reasonably *accessible* to all people in Australia. The committee understands *access* to relate to delivery and retail services. Access to retail services was discussed in paragraph 2.50 and relates to population dispersion and distance from Australia Post retail facilities. Access to delivery services has not been properly clarified but the committee believes that access suggests choice rather than the actual provision of a service. For example, Australia Post identified 180 000 communities that were entitled to receive a 'to the property' delivery. Australia Post reported that as a result of the polls, 'some additional 9 000 households/businesses will receive 'to the property' deliveries'. In addition, the frequency to 12 000 households/businesses will be raised (Submission 231, submissions p.958). Therefore, the remaining communities do not have a delivery service because of choice.

Urban base rate

3.41 The purpose and operation of the urban base rate (UBR) was described in paragraph 2.62. It provides a formula to determine delivery frequency. The cost of delivering mail to a household or business in an urban area is calculated to be $93 per year. As the cost of delivery increases, delivery frequency decreases. See Table 2.4.

3.42 The Communications, Electrical and Plumbing Union (CEPU) and Dr Rolf Gerritsen criticised the existing UBR. The CEPU commented that it is 'biased against the provision of services in more remote areas' as greater productivity can be achieved in urban areas where there are larger volumes of mail (Submission 200, submissions p.634). The CEPU suggested that it was impossible for rural and remote areas to match the productivity levels of urban areas therefore resulting in a decline in services for people in rural and remote areas. The CEPU proposed an alternative set of rates reproduced in Table 3.1.

Table 3.1 CEPU proposal for determining delivery frequency

Deliveries per week	Actual cost
5	less than $400
3	$400–800
2	$800–1500
1	more than $1500

Source Submission 200, submissions p.634.

3.43 Australia Post assessed the CEPU's proposal and estimated that it would cost $25.5m to implement (Submission 218, submissions p.815).

3.44 Gerritsen suggested that there were inconsistencies with the application of the existing UBR. He indicated that Australia Post operates five weekly mail services out of Winton. For this service, the price of delivering postal articles varies between $7.11 and $22.83. As the maximum cost multiple for a standard letter is 13 times the UBR which equates to $5.85, services to Winton fall well outside Australia Post's operating guidelines (Submission 135, submissions p.383).

3.45 In view of this, Gerritsen proposed that Australia Post should replace the UBR measure with an overall net cost estimate. Gerritsen is suggesting that postal points that fall outside a certain benchmark be serviced as Australia Post's national CSOs.

3.46 Australia Post reported that it has 'removed the automatic linkage between the frequency of delivery to rural and remote customers, and the cost of providing delivery in metropolitan areas and to incorporate annual increases to frequency values' (Submission 218, submissions p.816). In addition, the dollar cost values will be increased annually on the basis of change to the cost of labour and fuel.

Conclusions

3.47 Some submissions criticised the use of the word *reasonably* in section 27(4)(a) of the Act. While *reasonably* is not interpreted in the Act, it is understood that the urban base rate formula is the method through which Australia Post determines delivery frequency. Access to retail services is also part of the letter service which is established by a ratio of population to retail outlet. If *reasonably* was removed from section 27(4)(a) then all parts of the letter service would have to be accessible to all people in Australia on an equitable basis. This could place undue pressure on Australia Post. Second, Australia Post could be required to provide a delivery service to communities which have voted to continue receiving their mail from the local post office.

3.48 Credence was given to concerns raised in some submissions that *reasonably* gives Australia Post too much flexibility to determine the quality and quantity of retail and delivery services. In particular, it was suggested that if Australia Post's financial performance declined then Australia Post could withdraw or reduce services. This is a serious matter but there are other checks and balances on Australia Post's provision of services. For example, under section 40 of the Act, the Minister has the power to direct certain variations to corporate plans. Therefore, in the unlikely event that Australia Post proposed a significant reduction in services this could be overruled by the Government.

3.49 In addition, the development of performance measures for inclusion in the Australia Postal Corporation Regulations will be subject, under section 28D of the Act, to a performance audit by the Auditor-General each year. Where Australia Post does not comply with performance measures, Australia Post will, under section 28E of the Act, need to develop service improvement plans. In Chapter Five, it is recommended that these performance measures include information on access to retail services and delivery frequency.

3.50 Evidence provided to the inquiry suggests that access to a once a week service should be the minimum service standard. Emphasis is placed on the right to chose rather than the mandatory provision of the service. Some communities polled on their choice of existing access to private boxes or roadside delivery have preferred to continue collecting their mail from the local post office.

3.51 It is not reasonable that some 80 000 households do not receive even a once a week service. In view of the importance stressed throughout this report on the need for ensuring Australia's postal service is universally available and at the same time is financially successful, it is unacceptable that a segment of Australia's population has no access to a delivery service.

3.52 The Industry Commission previously recommended that where roadside delivery is only once a week, it be increased to twice a week. There is nothing wrong with this proposal except priority first should be given to ensuring that those households, currently 80 000, with no deliveries, be given the right to chose whether they want a minimum once a week service. Once this objective has been met, then all efforts should be made to raise households from a once a week to a twice weekly service where the need is requested.

3.53 It is recommended that Australia Post prepare another polling exercise for the remaining 80 000 households without a delivery service.

3.54 The urban base rate (UBR) is a tool through which Australia Post interprets the meaning of *reasonably* in the Act. Through the UBR, Australia Post can determine the frequency of delivery based on the cost of providing the service. As cost increases, delivery frequency decreases.

3.55 The concerns of the Communications, Electrical and Plumbing Union (CEPU) and Gerritsen have been noted. At this stage, however, the priority should be to ensure that all households, currently not receiving a delivery service, have the right to chose whether they want a once a week 'to the property' delivery service. These people are in the greatest need, with respect to delivery services, and it is necessary that services for them be brought up to a minimum standard as quickly as possible. The committee proposes that the UBR formula remain as it is, but incorporate an additional level, if needed, for the provision of a once a week delivery service for those households currently not receiving this service.

Recommendation

3.56 The committee recommends that:

1 Australia Post conduct a polling exercise of the remaining 80 000 delivery points without a 'to the property' delivery. Those communities that vote for a 'to the property' delivery will be provided with this service.

Education, health and parcel services

3.57 The provision of education, health and parcel services is not mentioned in Australia Post's CSOs in section 27 of the Act. In some submissions it was proposed that Australia Post's CSOs be extended to include a more comprehensive range of services. The Communications, Electrical and Plumbing Union (CEPU) proposed that CSOs be extended to include:

- the provision of a parcel service;
- provision of access preferably through a retail outlet, to services such as full postage assessment (eg for domestic and international large letters and parcels), bill payments, banking, money orders, passports; and
- preservation and restoration of Australia Post owned General Post Offices, and other Post Offices which have local historic significance (Submission 200, submissions p.636).

3.58 The CEPU's reason for supporting this extension was to 'guarantee that people across Australia can be sure of getting a form of service' (Transcript, p.125). The need for these services to be included as CSOs, as expressed in the evidence, was inconclusive. This may, in part, be due to the community's perception that these services are already CSOs. For example, Mrs Slack-Smith, during a public meeting in Armidale, commented that 'Australia Post has an obligation to provide a parcel service at an equitable rate, and that there should be a better parcel delivery service' (Public meeting, Armidale, 24 July 1995, precis p.12).

3.59 The need for and importance of the delivery of education materials was raised in a number of submissions. These concerns mainly related to students in rural and remote areas, studying by distance education or school of the air, in which case a regular mail service is essential. The Cattlemen's Union of Australia stated:

> An efficient and reliable mail service is all the more imperative in areas where students do not attend a formal school because of the remoteness of their homes, but rely on distance education. Substandard postal services result in substandard education of rural and remote children. (Submission 122, submissions p.343).

3.60 The various state branches of the Isolated Children's Parents' Association (ICPA) placed a similar emphasis on the importance of the postal service to students studying by distance education. The general view was that a 'weekly mail service be available to all students studying by correspondence' (Submissions 69, 113, 142, 201 submissions pp.125, 322, 436, 639). The ICPA, Queensland Council suggested that a twice weekly service is the minimum requirement (Submission 179, submissions p.560). The ICPA Federal Council supported the need for a minimum weekly service and, at the same time, commented that 'priority be given to students who are receiving lessons by correspondence and those with medical and other social problems such as the aged' (Submission 113, submissions p.322).

3.61 For students studying by correspondence, a weekly postal service was advised to be the minimum requirement for effective learning. In Northern Territory, for example, sets of work are normally completed in two week blocks and then sent to the relevant School of Distance Education, School of the Air or Tertiary Institution, marked and commented on and then returned to the student (Submission 69, submission p.1240). The committee, in a private briefing with the School of the Air, Broken Hill, was advised that a weekly delivery service ensures that an acceptable turnaround time is achieved. In addition, the School of the Air, Broken Hill, advised that written work still remains one of the most essential parts of a student's education and cannot be replaced by communication technologies.

3.62 In some submissions, it was suggested that the use of communication technologies such as facsimiles and modems were not a replacement for the mail service when it came to education. First, not all families have facsimile machines and the volume of mail to be sent is prohibitive (Submission 69, submissions p.124). Second, it was suggested that the quality of phone lines in remote areas were not designed to allow the volume of voice messages currently being sent, let alone the transmission of high volume written communications (Submission 179, submissions p.561).

3.63 The importance of the postal service, in providing medical supplies, to people in rural and remote areas also was stressed. The ICPA, Northern Territory Branch commented that the 'supply of medical needs is often required on a regular basis, eg for children or adults with chronic diseases, such as asthma or diabetes' (Submission 69, submissions p.125).

3.64 In response to the suggestion that the provision of education and health materials be defined in Australia Post's CSOs, Australia Post argued that this would not produce benefits (Transcript, p.19). Australia Post argued that under the current arrangements, the provision of these services seem to be satisfactorily provided. The evidence to the inquiry did not reveal any criticisms of Australia Post in providing education and health materials. Mrs Judy Cooper of the School of the Air, Mount Isa indicated her overall satisfaction with the postal service (Public Meeting, Mount Isa, 8 August 1995, precis p.8).

3.65 Australia Post suggested that there would be administrative difficulties in extending CSOs to include eduction and health materials. The delivery service would become 'content based' which could be subject to misuse. Under section 90N of the Act, Australia Post officials cannot open articles to examine content. In addition, the system could be open to fraud through people seeking to use a service at a preferential price and Australia Post not being able to determine the contents. Under these circumstances, Australia Post commented that a 'content based service is almost impossible to effectively control' (Submission 218, submissions p.809).

3.66 Australia Post suggested that the current arrangements for delivering education and health materials were satisfactory. Australia Post stated 'it is unnecessary because we already provide delivery of education and medical materials where there is a letter delivery service in place' (Submission 218, submissions p.808). The inadequacy arises where no letter delivery service exists. This issue has been dealt with above and a solution proposed through recommendation 1. Access to a minimum weekly delivery service would provide a guarantee ensuring delivery of education and health materials.

3.67 The extension of CSOs to include parcel and retail services was again not supported by Australia Post for two reasons. First, the evidence available suggests that there is no unmet demand. Australia Post and private sector companies provide these services in a competitive environment and on a demand basis. Australia Post suggested that an obligation to provide a parcel service could 'cause inefficiencies if Australia Post were obligated to offer services where there was no demand' (Submission 218, submissions p.812). Second, parcel services are already provided through all corporate and licensed post offices. Australia Post commented that 'extension of the CSOs will not increase the availability of these services' (Submission 218, submissions p.812).

Conclusions

3.68 The need for and importance of the postal service in providing education and health materials was raised in evidence to the inquiry. Students studying by distance education require a minimum weekly delivery service for effective learning. This requirement has not, as yet, been replaced by the uptake of other technologies such as facsimiles, electronic mail or the internet. The volume of education material is too large to be faxed and the poor quality of telephone lines in remote areas prohibits the transmissions of high volume electronic messages. Advice from representatives of the School of the Air commented that written work still remains one of the most essential parts of a student's education and cannot, at this stage, be replaced by communication technologies.

3.69 Similarly, the supply of health materials through the postal service is a valuable service provided to people in rural and remote areas. Again, the evidence supported the need for a minimum weekly delivery service as the bare requirement.

3.70 Parcel services are provided through all corporate and licensed postal offices. This is an area of Australia Post's operations which are exposed to competition and therefore supply of services is provided by Australia Post and private sector competitors.

3.71 The committee supports the need for a minimum weekly delivery service so as to effectively supply education and health materials for people in rural and remote areas. At this stage, the need to extend Australia Post's community service obligations (CSOs) to include health and education materials is not supported. If this measure was introduced then Australia Post's delivery system would become 'content based' which, on Australia Post's advice, would be complex to administer as it could not determine the content of postal articles. The committee accepts this advice but suggests that this is no reason not to maintain and improve these services.

3.72 The minimum postal requirement to ensure effective supply of educational and health materials is a weekly service. The committee has already suggested improvements in delivery frequency in recommendation 1. In implementing this recommendation, the committee concludes that priority should be given to households with students studying by correspondence and people requiring regular medical supplies.

3.73 At this stage, the committee does not support the inclusion of parcel services in Australia Post's CSOs. These services are being provided in a competitive environment and the inclusion of parcel services as a CSO may introduce inefficiencies. At the same time, there is no evidence of unmet demand for these services.

Recommendation

3.74 The committee recommends that:

2 in providing a 'to the property' delivery based on recommendation 1, Australia Post first give priority to households with students studying by distance education or with people requiring a regular supply of medicines.

Services for Aboriginal and Torres Strait Islander communities

3.75 Aboriginal and Torres Strait Islander communities are some of the most remote in Australia. The provision of a postal service to these communities presents a significant challenge to Australia Post. Not only are these communities remote, but they are extremely mobile. Further problems arise as the available evidence is not clear on the number of Aboriginal communities without regular postal services.

3.76 It is also important to define, as clearly as possible, the needs of Aboriginal people with regard to postal services. Their needs may vary significantly from the non-Aboriginal community. For example, Gerritsen suggested that inequities faced by Aboriginal communities are not primarily in the receipt of mail but in their 'access to postage facilities' (Submission 135, submission p.385). For example, Aboriginal communities serviced by private or community mail bags do not have access to Australia Post-organised sales facilities.

3.77 The Aboriginal and Torres Strait Islander Commission (ATSIC) highlighted some of the difficulties in providing delivery services to rural and remote indigenous communities. ATSIC commented that 'in many cases delivery to actual households is impossible as houses can be widely dispersed, and on many remote communities there are no named streets or house numbers' (Submission 186, submissions p.594).

3.78 The evidence suggested that the provision of services to Aboriginal communities should be designed with sensitivity to the needs of the community. The provision of standard postal services may be inefficient and may not serve the community as effectively as other methods. Gerritsen suggested that in view of the 'volatile nature of Aboriginal outstations, Australia Post would be well advised to adopt informal methods that utilise existing community infrastructures in providing mail delivery and postage services to Aboriginal outstations' (Submission 135, submissions p.388).

3.79 Gerritsen suggested that developing policies and services based on the principle of equality may be inappropriate. He suggested that Aboriginals may not want equality if it means a diminution of their autonomy (Submission 135, submissions p.384). For example, the Laramba community on Napperby Station 'do not want equal services, if that means their having to go to Napperby homestead to send and receive mail' (Submission 135, submissions p.384). This decision is based on 'perceptions of historical oppression by cattle station owners'.

3.80 The Commonwealth's Access and Equity policy recognises that 'while some services may be universally applicable, they may not be equally accessible if they are uniformally designed and delivered' (House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs (HORSCOATSIA) 1993: xv). HORSCOATSIA stated:

> In the formulation of policies and programs, and in the delivery of services to Aboriginal and Torres Strait Islander peoples, departments and agencies need to take into account the special needs and circumstances of Aboriginal and Torres Strait Islander peoples (HORSCOATSIA 1993, p.xvii).

3.81 The enormity of providing postal services to Aboriginal communities is not just related to vast distances and remoteness. As mentioned above, mobility is a key factor. Gerritsen states:

> So many Aborigines move regularly and for extended periods. Apart from conflict-driven mobility, movement can be propelled by a mixture of factors such as location of kinfolk; visits to town for drinking or entertainment - this movement exacerbated by the gathering phenomenon of alcohol-free communities; pursuit of job opportunities; traditional associations with land and usage of it for hunting and ceremonial activities; or even to secure access to public and welfare services. This means that any location can have a variety of populations over any given period (Submission 135, submissions p.387).

The need for a postal service

3.82 A further aid to devising effective postal services to Aboriginal communities is to understand the usage and relative importance of the letter as a means of communication. Gerritsen suggested that for personal communication purposes the trend is to use 'radiophone, especially since the larger, more established outstations began receiving solar-powered radiophones' (Submission 135, submissions p.389). Representatives of the ATSIC Tennant Creek regional council indicated that the 'priorities for the communities at the moment were telephones, radio facilities, and then a mail service' (Private meeting, Tennant Creek, 8 August 1995, precis p.11).

3.83 A representative of the Central Land Council, in Alice Springs, commented that the provision of educational material was not important 'as very few community children undertook education by correspondence as most communities had their own teacher' (Private meeting, Alice Springs, 9 August 1995, precis p.17). In contrast, the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs was concerned with this view noting that 'not all Aboriginal communities have their own permanent school' (House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs 1994, p.11).

3.84 Gerritsen suggested that in view of the decreasing use of the letter service for personal communication, the major use of the postal service is mainly for the supply of Department of Social Security (DSS) cheques. These cheques are cashed at the nearest community council offices or at the larger community stores. As such, Gerritsen suggested it may be more efficient for the postal service and more desirable for outstation residents if their mail is delivered to a 'core community' where facilities are available to cash their DSS cheque. Gerritsen stated:

> Insisting that Australia Post deliver mail direct to all outstations comprising four or more households (however defined) would be a waste of resources and probably counter-productive from the point of view of the outstation residents. They would still have to travel to a cheque-cashing point (ie their core community) with their mail (Submission 135, submissions p.389).

3.85 The committee observed this type of arrangement when it visited Yuendumu, Northern Territory. A large majority of the people in Yuendumu operated on a cash basis. If they were paid by cheque, the local store would cash it and hold the cash in an envelope with the recipient collecting what they needed on a day by day basis. The Yuendumu Council advised that they were happy with this system but a banking facility would be preferable (Private meeting, Yuendumu, 9 August 1995, precis p.15).

ATSIC communities in need of postal services

3.86 While the nature and dynamics of Aboriginal communities are complex, determining the number of communities that require better postal services poses further problems. ATSIC's 1991 survey of Community Housing and Infrastructure Needs of rural and remote indigenous communities, indicated that there were 98 discrete communities, and 445 outstation/homeland communities that 'do not have access to a regular mail service' (Submission 186, submissions p.593). A representative from ATSIC commented that these communities account for 25 000 people with a further '320 communities involving a population of some 60 000 having services through a central delivery point' (Transcript, p.74).

3.87 These statistics were contradicted by an Australia Post commissioned study in May 1995. Culvenor and Associates reported that there were 51 communities, accounting for 15 000 people, that were more than 50km from Australia Post retail facilities. These communities were mainly located in Northern Territory and the north of Western Australia (Submission 218, submissions p.823).

3.88 With respect to the 51 communities identified as being greater than 50km from Australia Post retail facilities, Australia Post indicated that these communities were serviced by 2 licensed post offices (LPOs), 22 community mail bags, 20 private mail bag service arrangements and 7 private box arrangements (Transcript, p.62). Under examination by the committee, Australia Post gave a commitment to ensure that community postal agencies are on the ground, servicing each of those 51 communities' (Transcript, p.62).

3.89 Australia Post was requested to explain the differences between the findings of the two surveys. It examined ATSIC's 1991 survey and commented:

> ... a cursory examination has revealed that at least 20 communities that indicated in their survey response they were not receiving a delivery service are, in fact, receiving a mail delivery service in line with existing Australia Post policy (Submission 218, submissions p.827).

3.90 Gerritsen suggested that including outstations in a tally of Aboriginal communities may be misleading as outstations may be unoccupied for various parts of the year. For example, many outstations in Northern Territory are inaccessible and vacated during the wet season. This situation was observed in the ATSIC survey as 64 of the 562 communities identified were unpopulated at the time of the survey (Submission 135: submission p.385). In view of this, Gerritsen stated:

> Obviously a statutory requirement that Australia Post be required to deliver mail direct to each Aboriginal community would be wasteful of time and resources if the definition of 'community' included outstations (Submission 135: submission p.385).

3.91 Australia Post gave the commitment to examine ATSIC's survey in more detail and provide 'delivery services, within existing delivery policies, to those communities identified as being inadequately serviced' (Submission 218, submissions p.827). In addition, Australia Post gave the undertaking to work with ATSIC to clarify the difference between the two surveys (Submission 218, submissions p.827).

Conclusions

3.92 Aboriginal communities are some of the most remote in Australia. The customs and traditions of these communities lead to a high level of mobility. In some cases, outstation communities are unoccupied for large periods of the year. These complexities present a special challenge to Australia Post to provide a letter service which is efficient and at the same time is attuned to the cultural needs of the Aboriginal community.

3.93 The provision of effective postal services for remote Aboriginal communities requires an understanding of the problem and the needs of these communities. Some submissions suggested that access to postal facilities is more important than delivery services. Gerritsen suggested that one of the major purposes of the postal service is the delivery of social security cheques. As such, there is no sense in delivering social security cheques to communities where there are no facilities to cash them and use the money to pay for goods and services. The committee accepts this reasoning although there are some concerns.

3.94 First, as suggested previously, Australia Post provides a non-content based postal service. If you do away with a delivery service on the basis that Aboriginals must travel to a core community to cash their social security cheques, then other items delivered in the post are also forgone. This includes education and health services. The evidence suggests, however, that few Aboriginal children are studying by distance education. Instead, there are usually teachers at the communities.

3.95 There will always be a need for medical supplies. No evidence was received, however, on the relationship of the postal system and the delivery of medical supplies to remote Aboriginal communities. The need for this service should be monitored by the Aboriginal and Torres Strait Islander Commission (ATSIC) in conjunction with Australia Post.

3.96 In developing postal services for Aboriginal communities, Gerritsen suggested that 'equality' of service may not meet community demand. The reasons for this were cogent but it is advised that this view not be used literally. The committee believes that service provision be of an equally high standard wherever it is provided, but the type of service be tailored to meet the geographic and cultural needs of a community.

3.97 There is concern at the discrepancy between results from two surveys showing the number of Aboriginal communities not receiving a postal service. ATSIC's survey, in 1991, of Community Housing and Infrastructure Needs of rural and remote indigenous communities indicated that there were 98 discrete communities and 445 *outstation/homeland communities not receiving a regular mail* service. In contrast, a survey by Culvenor and Associates, commissioned by Australia Post, showed that there were 51 communities greater than 50km from Australia Post retail facilities.

3.98 ATSIC's survey is now five years old and Australia Post raised some concerns with its results. Australia Post suggested that 20 communities identified as not receiving a postal service were, in fact, receiving a service. Gerritsen suggested that 64 of the communities were unpopulated at the time of the survey. Consequently, the committee concludes that the survey by Culvenor and Associates is a more useful policy tool. In the first instance, Australia Post should proceed as quickly as possible to provide community postal agencies to the 51 communities identified in the survey. In providing these services, Australia Post should consult with ATSIC and the local Aboriginal communities to ensure that the services are culturally suited to the needs of the community.

3.99 At the same time, Australia Post and ATSIC should review the results of the 1991 ATSIC survey and where it is found that communities have a need for postal services, these should be provided.

Recommendations

3.100 The committee recommends that:

3 Australia Post provide community postal agencies to the 51 Aboriginal communities, greater than 50km from Australia Post retail facilities, identified in the Culvenor and Associates Report;

4 **Australia Post and the Aboriginal and Torres Strait Islander Commission examine ATSIC's 1991 survey of Community Housing and Infrastructure Needs. Where a community is found to have a genuine need for postal services, Australia Post provide this; and**

5 **Australia Post consult with the Aboriginal and Torres Strait Islander Commission (ATSIC) and local Aboriginal communities so that new services incorporate access and equity principles and suit the needs of the community.**

The Retail Network

3.101 Australia Post' retail network is the principal means through which it delivers its CSOs. The retail network provides access to the letter service including stamp availability, assessment and posting.

3.102 The size and viability of the postal network requires constant monitoring and assessment to ensure that the network adequately services the population. Population movement and decline in certain areas may require Australia Post to close services and open new ones.

3.103 Licensed post offices (LPOs) are traditional post offices providing over the counter services to both business and domestic customers. They are managed by licensees. At June 1995, there were 2 822 LPOs.

3.104 Commercial postal agencies (CPAs) are the most basic postal retail outlets. They are generally located in small rural areas and provide customers with access to postage stamps, postage assessment and lodgement. In addition, CPAs may be responsible for distributing the local community's incoming mail. Table 3.2 shows the growth in CPAs during the past three years.

Post Office closures

3.105 The Communications, Electrical and Plumbing Union (CEPU) suggested that the reduction in Australia Post's retail network is reducing its ability to provide its CSOs. The CEPU claimed that in the 21 months to September 1995, there has been a nine percent reduction in actual Australia Post retail outlets (Transcript, p.118). Australia Post confirmed this reduction, although there was disagreement over the time period used. At the same time, however, Australia Post commented that openings are occurring as well as closures.

3.106 Table 3.2 shows the size of Australia Post's retail network for the five years between 1991 and 1995 as at 30 June for each year.

Table 3.2 Australia Post Outlets 1991 to 1995 as at 30 June

	1991	1992	1993	1994	1995
Corporate offices	1 352	1 348	1 301	1 203	1 132
LPO/POA	3 009	2 977	2 932	2 789	2 822
Sub Total	4 361	4 325	4 233	3 992	3 954
CPAs	184	218	243	350	363
Total outlets	4 545	4 543	4 476	4 342	4 317

Source Australia Post Annual Reports, 1991–92 to 1994–95.

3.107 Table 3.2 shows a gradual decline in corporate offices and LPO/POAs from 4 361 to 3 954, a fall of 407 post offices between 1991 and 1995. This fall has partly been offset by the increase in CPAs from 184 to 363, a rise of 179. Overall, the decline in post office outlets is 228 between 1991 and 1995. Information in Australia Post's annual report, however, does not show the number of LPOs and CPAs by urban, rural or remote location by State. This information could help to show, over time, how Australia Post is servicing communities in rural and remote areas.

3.108 The implications of this downsizing goes beyond actual numbers. While the growth in CPAs has reduced the overall decline in post office outlets, they have not replaced the same level of service. CPAs provide basic postal services such as selling stamps, postage assessment and lodgement. In comparison, LPOs provide these services in addition to agency services such as banking, bill payment and extended retail services.

3.109 Australia Post claimed that the main reason for closures is due 'by and large to shrinking populations' (Transcript, p.121). In addition, Australia Post attributed the decline in retail outlets to three factors:

- changes in customer shopping patterns;
- low business volumes, that is people moving away; and
- licensees not wishing to continue and Australia Post being unable to attract replacements (Submission 218, submissions p.842).

3.110 Australia Post also commented that it had implemented changes to its retail network in a 'responsible and sensitive manner and minimised any negative impact on customers in particular those in rural and remote areas' (Submission 218, submissions p.842). Australia Post believes this approach is demonstrated by the 'low level of community objections to the changes' (Submission 218, submissions p.842).

3.111 The CEPU commented that reductions in the retail network affect the ability of Australia Post to provide its community service obligations (CSOs). In addition, the shift to greater use of CPAs is not the best solution as communities are provided with a smaller range of services. The CEPU believes that Australia Post 'should endeavour as far as possible to provide the complete range of services to the community which needs to be serviced' (Transcript, p.128).

3.112 The CEPU's solution to the decline in the number of retail outlets includes the extension of Australia Post's CSOs to include a part on access to retail outlets providing full postage assessment and agency services. In addition, the CEPU proposed that the Government should 'adopt overseas practices and develop an accord or deed of understanding in relation to the number of retail outlets' (Submission 200, submissions p.636).

3.113 The CEPU also proposed that a formula be developed linking 'population levels with the availability of the full range of services'. That is, 1000 delivery points should justify the provision of an official corporate post office (Submission 219, submissions p.853).

3.114 The need to establish a ratio between the various types of post offices was also suggested. The CEPU pointed out that, currently, official post offices make up 26.4 percent, LPOs 64.6 percent and CPAs 9.0 percent.

International approaches

3.115 The complexity of providing a postal retail network which provides fair access and efficiency is a challenge for many countries. Australia Post is not alone in developing strategies which seek to balance access with the cost of providing the service. For example, Australia Post's network has operated at a loss for some years. In 1990–91, retail services lost about $80 million after allowing for transfer price returns for the services provided to other Australia Post businesses' (Submission 104, submissions p.242). At the same time, and in the process of rationalising its retail services, Australia Post needs to ensure that access to retail services is maintained.

3.116 In examining Australia Post's policies and strategies towards retails services, it is valuable to examine the policies of other countries. The following discussion will examine the strategies of providing a postal retail network in New Zealand and Canada.

New Zealand

3.117 In April 1993, the New Zealand Minister of Communications, the Hon Maurice Williamson, and New Zealand Post agreed on, and signed, A Deed of Understanding. Under the agreement, New Zealand Post retains statutory protection for the delivery of certain postal services, but agrees to continue to meet certain social, price and service quality objectives, and establish performance criteria against which the achievement of such objectives may be measured. The Deed was renewed on 28 March 1996 and will continue in force until 31 March 1997.

3.118 The Deed of Understanding includes a section on New Zealand Post's Post Office Network. Under section 10, New Zealand Post 'shall maintain a network of at least 880 postal outlets and post delivery centres, excluding stamp retailers'. Of the 880 postal outlets, at least 240 must be at the level of 'Postal Outlets'. However, New Zealand Post may convert up to 8 Postal Outlets to 'Post Delivery Centres, for every $2 million per annum reduction in service contract revenues after 1 April 1996'.

3.119 A 'Postal Outlet' is staffed by New Zealand Post employees, and provides the services offered by a 'Post Delivery Centre' in addition to agency and other services. A 'Post Delivery Centre' means an outlet owned and operated by a person other than New Zealand Post, and offers services such as stamp sales, postage of parcels and letters, and mail collection over the counter or by private box. The Post Delivery Centres provide a smaller range of services than do Postal Outlets.

3.120 The Deed Of Understanding locks in the overall number of retail outlets, and also the proportion of Postal Outlets to Post Delivery Centres. If revenue falls, however, then New Zealand Post can convert up to 8 Postal Outlets to the smaller and less costly Post Delivery Centres.

3.121 In assessing the post office network objectives in the Deed of Understanding, it is important to remember that New Zealand Post, since 1987, has experienced a major reduction in its retail network. In the period 1987 to 1991, official post offices were reduced from 894 to 288, although, post delivery centres increased from 0 to 513 (Duncan and Bollard 1992, p.113).

3.122 New Zealand Post indicated, in its 1995 annual report, that it is satisfying the objectives of the Deed of Understanding as the total number of postal outlets is 964. Of this number, 259 are larger 'Postal Outlets' (New Zealand Post 1995, p.40).

3.123 The objective of maintaining a minimum number of 'Postal Outlets' is similar to the CEPU's proposal for establishing a ratio between the various types of post offices.

Canada

3.124 In 1994, the Canadian Government announced an indefinite moratorium on post office closures. This policy ended the previous Government's Post Office Closure and Conversion Policy. Changes to the retail network will only take place once there has been a full and comprehensive consultation with Postal Services Customer Councils. The Canadian Minister, the Hon David Dingwall, in justifying the decision to maintain the postal network, commented:

> ... for millions of Canadians, the rural post office-or the small town post office-has been a point of connection... We need to bring people together, not cut them off. In this sense, the post office plays an important role in unifying our great country (Submission 200, submissions p.631).

Australia Post's retail network strategies

3.125 Australia Post's retail policy is not prescriptive like that detailed in New Zealand's Deed of Understanding. There is no commitment to maintaining a proportion between the various types of post offices. Nor is there an overall commitment such as the Canadian Government's to have an indefinite moratorium on post office closures. Australia Post's retail policy is:

> to provide a retail network which will ensure that Australia Post's letter, and related, services reach our customers in a way that:
>
> - meets our community service obligations;
> - offers a high level of quality customer service; and
> - is profitable (Submission 104, submissions p.240).

3.126 More detail about how Australia Post delivers this commitment can be found in its 1991–92 annual report where certain performance standards were made public. This discussion commented on 'the need to adapt to the changing needs of the community' in providing a retail network. Australia Post commented that it will 'provide a wider range of facilities to better address the needs of different groups in the community, for example, specialised retail outlets for domestic customers and business centres for small-to-medium business customers' (Australia Post 1992, p.75).

3.127 In regard to country areas, Australia Post stated:

> ... the changes will be fewer, as it is an objective of the Retail Post program that access to postal services in any areas will not be reduced (Australia Post 1992, p.75).

3.128 The above commitment focuses on the issue of 'access'. It is not a commitment to maintain the number of retail outlets. Australia Post's broad philosophy 'is to provide retail facilities in locations regularly frequented by our customers' (Submission 104, submissions p.244). Therefore, depending on population movement, and falling revenue, Australia Post may, for example, decide to downgrade a LPO to a CPA, close a LPO, or open a CPA. Australia Post has flexibility in making these decisions as there are no requirements outlining what size population can support a certain type of post office.

3.129 In its 1992 annual report, Australia Post commented that 'postal outlets are generally provided in all *reasonably* sized towns'. Postal outlets are made available in Aboriginal settlements 'with more than 600 residents' (Australia Post 1992, p.76). In addition, an Australia Post official advised that a minimum population of 200 was required to support a CPA.

Demographics

3.130 Demographic statistics provide an insight into the trends and patterns occurring in the population. One of the key issues, for providing a retail network, is the nature and extent of internal migration. Measuring internal migration is a difficult task and the most reliable source of information comes from the five yearly census of population and housing. Between censuses, the Australian Bureau of Statistics (ABS) estimates interstate migration, at quarterly intervals, from information based on interstate changes of addresses advised to the Health Insurance Commission in the process of administering Medicare. No comprehensive data, however, is provided on intrastate migration (ABS 1996, pp.108–9).

3.131 Australia Post uses a geographic classification of metropolitan, rural and remote zones developed and approved by the Department of Primary Industries and Energy and the Department of Human Services and Health. This classification system is described in Chapter One. An alternative source of information comes from the ABS.

3.132 There are some differences between the geographic classification system used by Australia Post and information provided by the ABS. For example, Australia Post reports that the rural and remote populations is home to 29 percent of the population (Australia Post 1995, p.5). In contrast, the ABS reports that Australia is one of the most urbanised countries in the world with around 85 percent of people living in urban areas (ABS 1996, p.80).

3.133 Australia Post refers to 'shrinking populations' and 'people moving away' as some of the reasons to justify changes to their retail network. While this type of population movement is occurring, it is important to note the overall changes occurring in the rural, remote and urban populations. The following discussion is based on ABS data and is in aggregate terms.

3.134 In 1921, the rural population was reported to be 37.4 percent (ABS 1996, p.80). Since 1921, the rural population fell to a low of 13.9 percent in 1976. From 1976, however, the size of the rural population has been slowly increasing and in 1991, formed 14.6 percent of the population. The ABS reported that in the period 1981 to 1991, the rural population increased by 384 300 people (ABS 1994, p.10).

3.135 Coopers and Lybrand publishes *Population Growth* 'to alert business to the market opportunities that are attached to new and emerging growth areas' (Coopers and Lybrand 1995, p.3). Coopers and Lybrand give information on Australia's remote population. They have selected an area of Australia that they have called the 'outback'. This area closely resembles a definition of 'remote' used by the Department of Human Services and Health and reproduced by Australia Post in its publication *Australia Post in Rural and Remote Australia.* Coopers and Lybrand indicate that in the area they have termed 'outback', the population at June 1994 was 174 695. Between 1993 and 1994, the population grew by 0.9 percent. Between 1976

and 1994, the net growth in this region was 26 941 or 18.2 percent (Coopers and Lybrand 1995, p.29).

Conclusions

3.136 Australia Post's network of retail outlets, along with delivery staff and contractors, is the means by which its universal community service obligations (CSOs) are delivered. Not only is the universal letter service provided but also other services such as parcels, financial services and postal complementary products.

3.137 The retail outlets are divided into a number of classes with the larger outlets such as post shops and corporate post offices providing a full range of services. In contrast, licensed post offices (LPOs) which are privately operated provide the core services such as stamp sales, postage and assessment, lodgement and may provide agency services such as banking services. Community postal agencies (CPAs) provide the minimum range of postal services but do not provide banking services.

3.138 Australia Post's retail outlets contributes to the provision of the universal letter service. Thus reductions in the size of the network must be carefully examined to ensure that people, particularly in rural and remote areas, are not disadvantaged. In addition, the replacement of LPOs with CPAs is also a concern as less services will be provided.

3.139 The retail network is decreasing in size with the total number of outlets decreasing from 4 545 in 1991 to 4 317 in 1995, a decrease of 228 outlets. At the same time, the composition of the retail network is changing with a steady growth in CPAs and a decline in the number of Corporate Offices and LPOs.

3.140 Australia Post argues that much of the change in the retail network is due to population movement and shrinking populations. It is accepted that in cases where population numbers no longer support the provision of an LPO, then the shift to a CPA is justified as Australia Post must pursue commercial objectives.

3.141 For example, Australia Post reported that one of the reasons for the decline in retail outlets was 'licensees not wishing to continue and Australia Post being unable to attract replacements'. There is no evidence suggesting how prevalent this situation is and the reasons are unclear. However, if a population exists to support a LPO or CPA, it is not acceptable that the only reason it is closing is because no one is prepared to take on the licence. In these situations, Australia Post must make arrangements for the LPO or CPA to remain open until a licensee can be found. If this task results in loss making, then Australia Post should be able to include this cost as a CSO.

3.142 Chapter Seven will outline performance measures, in more detail, relating to the availability or accessibility of Australia Post retail outlets or other places from which Australia Post products or services may be purchased. It is important that the Auditor-General, under section 28D of the Act, monitor changes in Australia Post's retail network. In cases where LPOs or CPAs are closed, and no replacement is provided, or where a post office type is downgraded, then Australia Post must justify to the Auditor-General that closure was due to demographic reasons.

3.143 These statistics have various implications for Australia Post's retail network. As the rural population is slightly increasing in size, there is cause to at least maintain the number of outlets servicing the rural community. This does not, however, mean that there will be closures of retail outlets in rural areas as some rural populations will decrease in size while others will increase. Australia Post will need to react to this and 'go with the population'.

3.144 The Communications, Electrical and Plumbing Union (CEPU) proposed that a ratio be established for the various types of post offices. This situation exists in New Zealand but it must be remembered that New Zealand Post has undergone major restructuring of its postal system including downsizing its retail network. Australia Post has also undertaken major restructuring of its retail network since 1991 and has achieved savings through this process. At this stage, however, the committee does not support the proposal that a ratio be established for certain types of post offices. Internal migration is occurring within and between remote, rural and urban zones. This situation requires Australia Post to have the flexibility to respond to the pressures of population movement. At

the same time, Australia Post's retail network and levels of accessibility will be monitored by the Auditor-General.

3.145 Canada's moratorium on retail closures is persuasive. The policy gives a commitment to communities in rural and remote areas that there will not be further erosion of their services. In addition, it gives a commitment to the importance of postal services as one means of providing a communication link for the country. These values and objectives should also apply in Australia. The committee, however, is unwilling to recommend a moratorium at this stage as it is a blunt instrument and more flexibility is needed.

3.146 Australia Post's annual report does not show the number of LPOs and CPAs by urban, rural and remote zone. This information should be provided for each state as it would help to show, over time, where openings, closures or downgrading of post offices are occurring.

Recommendations

3.147 The committee recommends that:

6 Prior to any closures or post office downgradings, Australia Post give full considerations to the need to maintain adequate access to services. This should include prior notice to and consultation with the local community and the Federal Member of Parliament; and

7 Australia Post's annual report provide information on the number of licensed post offices (LPOs) and community postal agencies (CPAs) by urban, rural and remote zone for each State.

The viability of LPOs and CPAs

3.148 Evidence provided to the inquiry suggested that more needs to be done to maintain the viability of licensed post offices (LPOs) and community postal agencies (CPAs). This section examines the concerns raised by LPO operators and suggests ways to ensure the economic viability of LPOs.

Community polling

3.149 A major concern raised during public meetings was Australia Post's decision to poll certain communities to see if they wanted a 'to the property' delivery. LPO licensees and the Post Office Agents Association Limited claimed that licensees revenue would fall and they would be forced to close if they lost box services as a result of the introduction of 'to the property' delivery.

3.150 Australia Post has been reviewing its delivery services particularly to households in rural and remote areas. This review partly stems from the Industry Commission's report into *Mail, Courier and Parcel Services*. The review identified 180 000 delivery points in rural and remote areas that do not receive a 'to the property delivery' 'but which, under Australia Post's policies, could do so if they wished' (Submission 104, submissions p.236).

3.151 Australia Post has consulted with these communities to determine their preference. Some communities have indicated that they prefer the current arrangements, that is concessional private boxes, to a delivery service. Australia Post commented that some communities see the present system as 'cheaper, more secure and quicker than a to the property delivery' (Submission 104, submissions p.237).

3.152 At July 1996, Australia Post, in a supplementary submission, reported that the polling exercise was completed. Some 2 500 communities with 180 000 delivery points were polled. The results are interesting as the majority of communities polled, elected to maintain the current system rather than receive a 'to the property' service. As a result of the polls, 'some additional 9 000 households/businesses will receive deliveries 'to the property', and the delivery frequency to 12 000 households/businesses will be raised. Therefore, of the 180 000 delivery points that could receive a 'to the property delivery', 159 000 will remain as they are (Submission 231, submissions p.958).

3.153 Through public meetings, conducted by the committee, a range of concerns were raised about the viability of LPOs and CPAs. Mr Miller of Horsham, Mr Griffin of Mildura and Ms Dawson of Mildura, raised concerns about the possible loss of income to local LPOs if 'to the property' delivery services were introduced (Public Meetings, Horsham and Mildura, 24 July 1995, precis pp. 3, 5 and 7). In addition, Mr Yates of Longreach raised the concern about the future of LPOs if 'top up payments' provided by Australia Post ceased after 30 June 1996 (Public Meeting, Longreach, 7 August 1995, p.6).

3.154 LPOs receive revenue from the Private Box Service that they provide. If customers choose 'to the property' delivery, then there would be less need for the private boxes at the post office, resulting in reduced income for LPOs. The Post Office Agents Association Limited (POAAL) raised this concern, commenting that it could lead to the closure of some LPOs and CPAs. The POAAL stated:

> A 'to the property' letter delivery in many areas of Australia would result in making many Licensed Post Offices becoming unviable, and it is highly probable that closure of the LPO would follow (Submission 138, submissions p.409).

3.155 In addressing this problem, Australia Post and the POAAL reached an agreement to provide short term income maintenance in the event the polling project results in loss of services and reduced income. A LPO licensee affected by the poll will be given three options:

- accept a five years fixed term contract to perform the 'to the property' delivery service;
- decline the delivery contract and accept a reimbursement agreement for 50 percent of the combined 'lost' income, payable for a maximum of two years; or
- accept a cessation/termination package and the LPO License will revert to Australia Post and will be transferred for tender.

3.156 In view of various concerns that keep arising about the viability of LPOs and CPAs, Australia Post has some measures to assist licensees. A broad approach by Australia Post is to encourage LPO operators to be entrepreneurial and provide a range of complimentary services where possible, thus earning additional income. Specific measures includes the extension, where possible, of banking services and the provision of top-up payments.

Banking services

3.157 Australia Post suggested that by providing access to new services, such as giroPost, it had minimised the impact of retail closures. The giroPost system seeks to extend banking services at Australia Post outlets (Transcript, pp.12, 241).

3.158 In addition, Australia Post provides an indefinite income maintenance scheme to unprofitable outlets. It believed these measures had helped to improve outlet viability (Submission 218, submissions p.842).

3.159 The importance of banking services to LPOs was raised in Public Meetings. For example, during a meeting in Broken Hill it was suggested that post offices were profitable if they were mixed with another business. It was suggested that most money was made out of banking with 'on average, around 60 percent of their income' coming from this source (Public Meeting, Broken Hill precis, p.9). Australia Post, however, provided figures showing revenue from this source was much lower than 60 percent.

3.160 LPOs can provide banking services but CPAs do not. The following figures provide some background on the number of LPOs providing banking services:

- of 2 800 LPOs, only 1 400 are connected to an Electronic Point of Sale System (EPOS);
- of the remaining 1 400 LPOs without EPOS:
  - 435 do no banking transactions;
  - 564 do 1 to 500 transactions per year or less than 2 per day; and
  - the remainder do 500 to 1 000 transactions per year or less than 4 per day (Submission 218, submissions p.814).

3.161 In deciding whether to install electronic point of sale (EPOS) machines, consideration needs to be given to the size of the establishment and running costs. Installation costs average $11 750 and ongoing annual costs average $10 460 (Transcript, p.129). For an EPOS to be profitable, Australia Post advised that a LPO licensee would require a minimum of 11 000 transactions per year or 210 per week.

3.162 Thus, the viability of extending banking services to more LPOs and CPAs is based around demand for these services. Australia Post believes that there is insufficient demand to extend banking services to CPAs. In cases where there was sufficient demand, then the CPAs would be converted into LPOs, although this is extremely rare. Next, Australia Post suggested that there is a lack of interest on behalf of CPAs to undertake additional functions.

3.163 Australia Post indicated that the cost of converting CPAs to LPOs and converting manual LPOs to electronic services, through the installation of EPOS, would cost $26.6 million to set up and an annual cost of $13.6 million (Submission 218, submissions p.814).

3.164 The committee recognises that there is a growing trend for banking agencies to close retail outlets in rural and remote areas. It is possible that Australia Post could fill this need by providing banking services to communities that are without standard banking services.

Top-up payments

3.165 During the period when post office agents (POAs) transferred to licence post offices or when corporate post offices converted to LPOs, Australia Post introduced measures to supplement revenue. In the case where the cost to Australia Post for a LPO is less than that for a POA, then the licensee is eligible for a top-up payment. In the case of corporate offices converting to LPOs, an assessment is made of what the cost to Australia Post would have been if the outlet had operated as a POA. POAs provide the same level of services as an LPO (Submission 218, submissions p.844).

3.166 Australia Post commented that the 'intention of the payment is to maintain Licensees' income at approximately their previous levels while they make the necessary adjustments to either increase their earning potential or lower their overheads' (Submission 218, p.844).

3.167 The top-up payments ceased in metropolitan areas on 30 June 1996 but continue indefinitely in country areas. The top-up payment, however, is not transferred on the sale of the Licence.

Mail contractors

3.168 In rural and remote areas, Australia Post tenders out mail runs. The viability of mail contractors was also raised during public meetings. Mrs Slack-Smith commented that Australia Post 'should endeavour to make the business viable by taking into account the cost of running a vehicle on bad roads' (Public meeting, Armidale, 26 July 1995, precis p.12). It was claimed that mail contractors providing a service on predominantly dirt and gravel roads received the same as contractors who worked on bitumen roads. The cost for contractors on dirt and gravel roads 'was at least 50 percent more' (Public meeting, Armidale, 26 July 1995, precis p.12).

3.169 Mr Wall, a mail contractor, has been asked to take a $500 cut to his tender because Australia Post would not accept anything more than 53c a kilometre. In addition, he claimed that his contract was $1 500 less than it was five years ago, yet he 'still covered the same mileage and faced increased cost' (Public meeting, Armidale, 26 July 1995, precis p.12).

3.170 Through most of this discussion, the overall comment was that Australia Post should apply a higher payment or cents per kilometre for contractors who worked, predominantly, on dirt and gravel roads.

3.171 Australia Post's response to these comments was that it has 'clear policies and guidelines for tenders and that, for example, the lowest tenders might not be deemed to be a suitable person' (Public meeting, Armidale, 26 July 1995, precis p.12).

Conclusions

3.172 Through public meetings, submissions and through members own experience, concerns were raised about the viability of licensed post offices (LPOs) and community postal agencies (CPAs). The issue of polling revealed this with the Post Office Agents Association Limited (POAAL) suggesting that many LPOs would close if 'to the property' delivery services were introduced. Fortunately, this problem was reduced as Australia Post and the POAAL reached an agreement to provide assistance to LPOs where 'to the property' delivery services were introduced. In addition, the number of communities electing to have 'to the property' delivery was relatively small.

3.173 The extension of banking facilities to some LPOs is a way of assisting the income for licensees. The introduction of giroPost is noted as a means to achieving this. There is a growing trend for banking agencies to close retail outlets in rural and remote areas. It is possible that Australia Post could provide banking services to communities that are without standard banking services. Through this measure, Australia Post could provide a much needed service and Australia Post licensees could gain additional revenue.

3.174 The committee is concerned that not enough is being done to support some LPOs and CPAs to improve their viability. Measures could include assisting licensees with management and financial planning, and strategies to increase complementary services and increase sales. From Members' own experience, many contractors may enter a tender process without full knowledge of their obligations. Later contractors find out that Australia Post by not providing adequate information prevents them from earning an adequate income.

3.175 The viability of mail contractors was also raised at public meetings. Claims were made that income was falling because of the tight contracts enforced by Australia Post. One mail contractor claimed his contract was $1 500 less than it was five years ago, yet he still covered the same distance and faced increased costs.

3.176 Some of the mail contractors claimed that there was an inequity in the payment system. The costs for mail contractors who worked on dirt and gravel roads was the same for those who worked on bitumen roads, yet there was more wear and tear for cars on dirt and gravel roads.

3.177 Irrespective of these comments, no detailed evidence was provided to the inquiry showing the number of licensees affected and the extent of their problems. The same applied for mail contractors. As the nature of the problem could not be defined it was difficult to arrive at a meaningful solution. In view of this, it is recommended that if the POAAL believes there are problems for LPO and CPA operators, then it should document this information and direct it to the Minister for a decision.

Recommendations

3.178 The committee recommends that:

8 **Australia Post upgrade Licensed Post Offices or Community Postal Agencies to include banking services in cases where standard banking services in a rural or remote community are closed. If necessary, the cost of this service should be included as a community service obligation; and**

9 **the Post Office Agents Association Limited (POAAL), if necessary, document the problems of Licensed Post Offices (LPOs) and Community Postal Agencies (CPAs) licensees and direct these concerns to the Minister for ameliorative action.**

Chapter Four

THE COSTS AND FUNDING OF AUSTRALIA POST'S COMMUNITY SERVICE OBLIGATIONS

Introduction

4.1 In 1994–95, Australia Post's community service obligations (CSOs) were calculated at $65 million. This amount was paid through cross-subsidisation. Another method of paying for CSOs is through direct budgetary payments. The merits of these two methods will be examined.

4.2 Australia Post's CSOs are calculated using the avoidable cost method. This is the accepted government method for calculating the cost of CSOs. Australia Post, however, suggested that the avoidable cost method underestimates the cost of CSOs and, as such, alternative methods should be used. This proposal will be assessed.

The cost of CSOs

4.3 The cost of providing Australia Post's CSOs are calculated each financial year and recorded in Australia Post's annual report. Table 4.1 shows the cost of CSOs for the last five years.

Table 4.1 The cost of Australia Post's CSOs

(dollar million)

1990–91	1991–92	1992–93	1993–94	1994-95
60	52	46	62	65

Source Australia Post, *Annual Report*, 1994–95, p.64.

4.4 The process of costing CSOs is complex and time consuming and there are various methodologies that can be used. The choice of methodology is important as the cost of CSOs can vary considerably when a different methodology is used. In addition, the cost of CSOs is used to adjust the rate of return under the existing cross-subsidy provisions.

Costing methodologies

4.5 The three major methodologies include the long term avoidable cost method, the fully distributed cost method and the stand alone method. The **avoidable cost methodology** is prescribed by government and used by Australia Post to calculate the cost of its CSOs. The Department of Finance defined the avoidable cost method as:

> ... the net cost that would be avoided if the business did not provide the CSO. It is a practical measure of marginal cost [the cost of producing one more unit of a good or service], being based on an additional range of output, rather than on each additional unit of output (Submission 216, submissions p.737).

4.6 Australia Post is critical of this methodology commenting that it 'has led to a substantial understatement of the value of the services Australia Post provides the nation through its CSOs' (Submission 104, submissions p.257). In contrast, Australia Post would prefer to use the fully distributed cost methodology (FDC) or the stand alone method.

4.7 **Fully distributed cost methodology** covers 'the total costs of an enterprise allocated to all the different activities it undertakes, including those not directly attributable to particular activities'. Using this method has the effect of increasing the cost of CSOs. In 1993–94, the cost of CSOs using the avoidable cost methodology was $62 million. Using the FDC methodology, the cost would have been $137 million (Submission 104, submissions p.258).

4.8 The **stand alone methodology** increases the cost of CSOs even further to an estimated $155 million for 1993–94. Stand alone costs 'are those costs of providing a product or service in isolation from other products, that is, the existing cost of the enterprise less those costs which would be avoided by deleting all other products of service (Steering Committee on National Performance Monitoring of Government Trading Enterprises 1994, p.19). Australia Post commented that development of a 'detailed model for the costing of Australia Post's CSOs on a stand alone basis would be a difficult and costly exercise, not justified under current circumstances' (Submission 104, submissions p.257).

4.9 The Steering Committee on National Performance Monitoring of Government Trading Enterprises suggests that in most cases the avoidable cost is the preferred approach. The Department of Communications and the Arts (DCA), which is the Commonwealth Department which shadows Australia Post, also supports the avoidable cost methodology.

4.10 The Department of Finance and DCA both suggested that fully distributed cost and stand alone methodologies would 'overestimate the true cost incurred by Australia Post in providing the CSOs integrally within its core business' (Submissions 173 and 216, submissions pp.514, 737).

4.11 The Department of Finance and Bureau of Industry Economics both advised against the use of the FDC and stand alone methods because large estimates for CSOs could lead to criticism of the cost effectiveness of CSOs and possibly 'create pressures for reduction or withdrawal' (Submission 216, submissions p.737). In support of the avoidable cost methodology, the Bureau of Industry Economics stated:

> ... it provides a better estimate of the true costs of delivering CSOs. Its use will ensure that government funding of CSOs is not wound back in response to poor information about costs and that infrastructure providers are not over-compensated for the delivery of CSOs (Bureau of Industry Economics 1995, p.36).

4.12 A higher estimate of CSOs will marginally increase the rate of return. The rate of return relates income to the value of assets used to generate that income. The notional cost of Australia Post's CSOs is added to its income for the purpose of calculating the rate of return. For example, in 1993–94, the cost of CSOs using the avoidable cost method was $62 million and the rate of return after CSOs was 17.6 percent. If the cost of CSOs was $137 million using the FDC or $155 using the stand alone method then the rates of return would be 20.9 percent and 21.8 percent respectively.

Conclusions

4.13 The committee notes Australia Post's comments that the avoidable cost methodology understates the value of CSOs and obscures the valuable role it plays. These latter points are overstated, however, as the valuable role played by Australia Post is easily recognised through surveys showing the high level of customer support and recognition for Australia Post. In addition, the avoidable cost methodology is the Government preferred method as annunciated by the Steering Committee on National Performance Monitoring of Government Trading Enterprises.

4.14 The measurement of a Government Business Enterprises's (GBE's) rate of return will be affected by different estimates of CSOs. Accordingly, for the benefit of comparison, it is important that the Government wide approach to estimating CSOs be used.

4.15 Finally, by overestimating the cost of CSOs through using the FDC or stand alone methodologies, there may be more criticisms and pressure to reduce or withdraw CSOs. For these reasons, the committee maintains that Australia Post should continue to use the avoidable cost methodology to calculate the cost of CSOs.

Methods of funding Australia Post's CSOs

4.16 The method of funding Australia Post's CSOs was a major issue in the inquiry. The main methods of funding CSOs include:

- cross-subsidisation;
- levies on users;
- direct cash payments to targeted users;
- budgetary payments; and
- accepting lower rates of return (BIE 1995, p.32).

4.17 Cross-subsidisation is the method used to pay for Australia Post's CSOs. Apart from budgetary payments, the other methods of funding CSOs did not receive strong support in the evidence. The Bureau of Industry Economics (BIE), in its submission to the inquiry, did comment on these alternative methods. The BIE suggested that direct payments to users or vouchers was 'probably not practical in Australia Post's case in view of the likely *administration and policing costs associated with this approach*' (Transcript, pp.101–2).

4.18 The problems associated with using direct payments or vouchers to pay for Australia Post's CSO were significant. For example, rural and remote users would be the recipients of these payments. Yet, rural and remote users send and receive mail. As such, a sender who lives in an urban area could also be entitled to receive a voucher. It is for reasons such as this that these methods did not figure prominently in the evidence. In view of this, the debate focused on cross-subsidies and budgetary payments.

The cross-subsidy

4.19 A cross-subsidy occurs when a business or government enterprise uses revenue from a profitable market to finance a loss making line of the business. The Industry Commission[1] stated:

> Cross-subsidisation involves some users paying less for a service than the cost of its provision; others pay more. By paying more, these users contribute the revenue required to offset losses where the charge is less than costs. Thus, cross-subsidisation is equivalent to imposing a tax on some users and subsidising others (Industry Commission 1992, p.122).

4.20 The actual cost of providing a standard letter service is not uniform throughout Australia. The Productivity Commission suggested that some postal services in cities might be provided at around 20 cents (Transcript 1996, p.61). In rural and remote areas, for example, it can cost more than 45 cents to deliver a standard letter. To support these less profitable mail paths, Australia Post uses cross-subsidies. That is, it uses revenue from the more profitable mail paths to subsidise the loss making mail paths, thus fulfilling its objective to provide a uniform letter service at a uniform rate (Submission 104, submissions p.262).

4.21 As part of its 1992 inquiry, the Industry Commission (IC) received information from Australia Post which disaggregated the cost of CSOs by mail path and letter type. Table 4.2 shows the cost of CSOs by major traffic flow and letter type for 1990-91.[2]

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1 In 1996, the Industry Commission amalgamated with the Bureau of Industry Economics and the Economic Planning Advisory Commission to form the Productivity Commission.

2 Australia Post advised that the estimates provided for 1990–91 would be indicative for 1994–95.

Table 4.2 Estimated cost of CSOs 1990–91

(dollar million)

CSOs by major traffic flow

City to City	City to Country	Country to Country	International	Total
26	14	6	15	61

CSOs by letter service

Domestic standard	Domestic large	International	Total
33	12	15	60

Source Industry Commission 1992, p.104

4.22 Table 4.2 shows that, contrary to popular belief, $26 million was used to subsidise the city to city mail path and a further $15 million was used to subsidise the international mail path. There were three reasons given by Australia Post to account for the costs in the city to city mail path:

- high acceptance costs at small post offices and post office agencies due to low throughput;
- an opportunity cost of capital which results in high amounts for large/valuable properties in the cities, for example GPOs; and
- high local overhead costs at post offices where 'profitable' mail traffic is insufficient to provide the contribution margin to justify continued operation of the office (Industry Commission 1992, p.105).

Budgetary payments versus cross-subsidisation

4.23 The Bureau of Industry Economics (BIE) and the Productivity Commission (PC) suggested that funding CSOs through a cross-subsidy lacks transparency, is allocatively inefficient, and, therefore, should be replaced by direct budgetary payments. In support of the payment of CSOs through a budgetary payment, the PC suggested that this is the preferred method in the *Accountability and Ministerial Oversight Arrangements for Government Business Enterprises*. Section 4(c) of these arrangements state that 'the costs of CSOs be transparent, with new CSOs normally funded from the Budget' (Department of Finance 1995).

History

4.24 Prior to discussing these matters it is necessary to look at the history of this debate. Australia Post's cross-subsidy was subject to scrutiny by the Bradley committee. The Bradley Report supported the retention of the cross-subsidy provisions, commenting 'that a Budget subsidy approach for uneconomic components of the basic letter service could not be pursued with precision (Bradley 1982, p.46). The Bradley committee considered three arguments against a budget subsidy:

- funding could be subject to variation from Budget to Budget which could disrupt commercial operations and planning;
- access to Government funds for a particular purpose might reduce incentives for pursuing efficiency in that purpose; and
- it can be difficult to determine the cost of measures where those costs are not clearly separable from other operational costs (Bradley 1982, p.45).

4.25 The Department of Communications and the Arts (DCA) discussed, in its submission to the inquiry, the report *Mail, Courier and Parcel Services* in which the IC recommended, that Australia Post's CSOs be funded through direct budgetary payments. DCA indicated, that the Government rejected this recommendation on the grounds that:

- CSO services are integral to, and are provided integrally with Australia Post's core business; and
- there is no practical alternative to providing the services other than through Australia Post (Submission 173, submissions p.514).

4.26 In 1995, the Joint Committee of Public Accounts (PAC) discussed CSOs in its report *Public Business in the Public Interest.* The PAC commented 'in those cases where a CSO is an integral part of the total operations of a business, as with Australia Post and Telstra, the Committee accepts that funding by cross-subsidy may be preferable' (Joint Committee of Public Accounts 1995, p.89).

Transparency and accountability

4.27 Evidence to the committee's inquiry reflected the debates that have previously occurred. The BIE and PC suggested that cross-subsidisation reduces transparency in the provision of CSO services and inhibits the monitoring of GBEs. The BIE suggested that 'it is difficult for governments and society to determine whether the benefits from any CSO justify its total cost' (Submission 211, submission p.695).

4.28 This notion of transparency, however, was disputed. The method of costing CSOs is extremely complicated, and it was suggested that this process would still need to be pursued if CSOs were paid for through a budgetary payment. Professor Quiggin, an economist, agreed that if strict rules and methodology applied to the costing of CSOs then 'there is no reason the cross-subsidy could not be as transparent' as a budgetary payment (Transcript, p.163).

4.29 Australia Post supports the retention of the cross-subsidy arrangements on the grounds of 'certainty, cost and efficiency, practicality and preserving the GBE culture of non-reliance on government financial handouts' (Transcript, p.238). From the point of practicality, Australia Post believed that as the calculation of CSOs is complex, direct funding would involve the enterprise in a ceaseless round of haggling over the amount to be paid. Second, if CSOs are on a budget line, then if available funds diminish, as different pressures come to bear on governments, this could lead inevitably to a progressive reduction in services to rural and remote areas (Australia Post 1992, p.35).

4.30 Australia Post commented, in evidence to the inquiry, that budgetary payments would have a negative effect on Australia Post's culture and approach to its commercial objectives. It was suggested that budgetary payments would be regressive as it would reduce Australia Post's incentive to perform because it would be assured of receiving a budgetary handout to pay for CSOs. (Transcript, pp.217, 227, 238, 240). Australia Post stated:

> In terms of the funding of CSOs, again, we believe that the cross-subsidy method is demonstrably preferable to budget funding on grounds of certainty, cost and efficiency, practicality and preserving the GBE culture of non-reliance on government financial handouts. That was supported by Finance today. We do not underestimate the importance of having a culture in our business which has a customer focus, providing service to those customers, a self-funding business not reliant on government handouts. It is a very important cultural element of our business (Transcript, p.238).

4.31 This view was also supported by the Department of Finance (DoF). The Deputy Secretary of the Department of Finance, Mr Hutchinson, commented that by having CSOs paid for by a budgetary payment:

> You create an avenue in which there are incentives in Australia Post to maximise the cost of CSOs—not that I believe that they would ever do this of course—because, if they increase the cost of CSOs, they increase the call on the budget and they can send the bill to the budget every time. At the moment, the incentives on all parties are to minimise the costs of CSOs while still delivering the desirable outputs (Transcript, p.217).

4.32 DoF discussed, in its submission to the inquiry, the positive and negative aspects of paying for CSOs by budgetary payments or cross-subsidies. DoF commented that budgetary payments have 'the advantage of being transparent and of providing the Government with routine opportunities to assess the costs and benefits of the CSOs against competing demands for services in the community' (Submission 216, submissions p.739). In addition, budgetary payments were considered 'favourable in terms of both allocative and operational efficiency, provided 'cost plus' pricing arrangements are avoided in the CSO area of the business' (Submission 216, submissions p.739).

4.33 With respect to cross-subsidisation, DoF commented that this is 'a less efficient method of funding, in terms of allocative efficiency and external scrutiny'. DoF indicated that this method 'usually implies the use of market power to recover more than average costs from some consumers in order to subsidise other consumers' (Submission 216, submissions p.739). In addition, DoF warned that in situations where cross-subsidisation is used in a competitive market then this 'can be inconsistent with the principles of competitive neutrality' (Submission 216, submissions p.740).

4.34 Irrespective of the previous comments, DoF supported the payment of Australia Post's CSOs through cross-subsidy arrangements. DoF commented that cross-subsidisation is presently the preferred method of funding on the basis that:

- as established in Australia Post's enabling legislation, the CSOs are not easily identifiable as separate business components; and
- the administrative complexities associated with Budget funding of Australia Post's CSOs would be considerable in the case of postal services, especially if payments from the Budget were to be made direct to beneficiaries (Submission 216, submissions p.740).

4.35 On the basis of these points, DoF concluded that 'despite other methods being theoretically attractive on some grounds, Finance accepts that the present arrangements for funding Australia Post's current CSOs remain appropriate as a matter of practicality' (Submission 216, submissions p.740).

Allocative efficiency

4.36 The major reason why market economists dislike the use of cross-subsidies is because this system of funding does not ensure that 'resources are being allocated to the production of the goods and services the society requires'. The BIE commented that cross-subsidies, in effect tax a certain group of consumers in order to subsidise another group of consumers (Submission 211, submissions p.694).

4.37 This situation can distort consumption, production and investment decisions. For instance, the de facto taxation of particular users can lead to less consumption, even though those 'taxed' consumers may value the additional units more than the cost to produce. Conversely, lowering the price to certain users acts as a subsidy. This can lead to consumption involving costs to the community which, at the margin, exceed the benefits to the individual consumers. For instance, the increased demand arising from subsidised prices can lead to investments in infrastructure which are either unwarranted or premature (Submission 211, submissions p.695).

4.38 The BIE also commented that funding CSOs through cross-subsidisation often requires the Government to maintain a monopoly. If competition was allowed, investors would be drawn to the 'taxed' market which would drive prices down and reduce the capacity of the GBE to cover the costs of delivering CSOs.

4.39 On the grounds of allocative efficiency, and other reasons, the PC argues that cross-subsidies should be removed so as to ensure that consumers pay a price for goods and services which more closely reflects market value (Transcript 1996, p.46). CSOs could then be paid for through a number of options, for example, direct cash payments to targeted users, direct budgetary payments to the enterprise or accepting lower rates of return.

4.40 The PC was questioned specifically on the matter of allocative efficiency. In particular, it was asked what gains in allocative efficiency could be made while a universal letter price is operating. There was no specific response to this question, although the PC suggested, as an alternative, a maximum letter rate could apply with other operators having the freedom to compete under the maximum rate (Transcript 1996, p.49). In addition, the PC also pointed out that the capacity to fund CSOs through cross-subsidies is directly related to the degree of competition it faces. With full competition, it is not possible to cross-subsidise (Transcript 1996, p.55). The committee expands on this issue in pagagraphs 8.73, 8.74 and 8.75.

Conclusions

4.41 The Productivity Commission (PC) opposed the funding of Australia Post's community service obligations (CSOs) by cross-subsidies while Australia Post supported their retention. Cross-subsidies involve some postal users paying more for a service than the cost to provide it. In this way, the profitable areas of the network pay for non-profitable areas.

4.42 In contrast to cross-subsidies, the PC preferred budgetary payments. Three reasons were advanced for this preference. The first two were transparency and accountability. While budgetary payments will provide transparency, other CSO funding methods can also be transparent. For example, Australia Post reports information on its CSOs in it Annual Report. The committee, through standing order 28B (b), can examine and report on issues, including the nature and funding of CSOs, in Australia Post's annual report. The committee believes this power helps to dispel the view that Australia Post's CSOs lack transparency or there is a lack of accountability.

4.43 A further difficulty with the transparency and accountability argument, if CSOs were paid for through the budget, is that the budget process could result in cuts that in effect reduce the extent of CSOs thus leading Australia Post to reintroduce cross-subsidies. In addition, it is highly unlikely, in the present environment of reducing budgetary outlays, that the Government will be seeking to add a new and expensive item to the budget.

4.44 The third reason advanced for budgetary payments and against cross-subsidies is efficiency and 'allocative efficiency'. The argument here is that regular review of CSOs in the budgetary context would result in efficiency gains. This argument is simplistic. The budgetary process, with its tight deadlines and short time frames, is not suitable for the in-depth study that is required to examine the efficient delivery of CSOs. Such a review can be undertaken by the Australian National Audit Office (ANAO). A possible outcome of such a performance audit could be the construction of a set of performance indicators which could be used to measure performance over time. These performance measures should be built into section 28C of the Act and monitored by the ANAO every year through the processes set up in section 28D of the Act.

4.45 The 'allocative efficiency' argument used is that cross-subsidies encourage greater consumption by those who pay less than what they should for a postal service, and discourages consumption by those who pay more than they should. Thus, the PC argues, cross-subsidies result in a misallocation of resources. Under questioning, the PC admitted that cross-subsidisation is occurring all the time in the private sector. In this situation, cross-subsidies were acceptable as they were made as part of 'normal commercial decisions'. It seems inconsistent that Australia Post as a corporate enterprise with commercial objectives cannot also decide to have cross-subsides as part of its commercial decision-making.

4.46 The PC did not explain how direct budgetary payments would remove any misallocation of resources given that Government policy supports a universal letter rate for a standard letter service throughout Australia. For there to be gains in allocative efficiency, Australia Post or its competitors would have to charge prices that reflect market costs. Thus letter prices could be expected to increase for mail sent to and from certain places and to fall for mail sent on low cost routes. Those groups who pay more, than they do at present, would need to be compensated. For example, the cost to send a letter to a remote area would increase. In this situation, is it the sender or receiver who should be compensated? Hence, the task of developing a suitable policy and administering it would be an administrative nightmare.

4.47 The PC did not provide any practical method for developing a compensation scheme. It is not surprising then that the Department of Finance 'accepts that the present arrangements for funding Australia Post's current CSOs remain appropriate as a matter of practicality' (Submission 216, submissions p.740).

4.48 On the basis of the previous comments, the committee concludes that allocative efficiency and subsidies are mutually exclusive. Allocative efficiency requires differential pricing so that services reflect costs. In addition, there is no practical method available for compensating people who will pay higher postal prices for sending letters to and from rural and remote areas.

Recommendations

4.49 The committee recommends that:

10 the current cross-subsidy provisions continue to be used as the most appropriate and administratively effective means of paying for Australia Post's Community Service Obligations; and

11 the Government give an undertaking to rural and remote Australia that it will not use budgetary payments as a means of paying for Australia Post's Community Service Obligations.

Additional costs

4.50 Australia Post is required by legislation to provide community service obligations (CSOs) as set out under section 27 of the Act. The cost of these services are calculated to provide a dollar value for CSOs which is recorded in the annual report. There are other services, however, that Australia Post is required, by legislation, to undertake but are not designated as CSOs.

4.51 In defining whether a service or activity is a CSO, it is important to remember that a CSO 'arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis'. There are a number of legislative requirements that may satisfy this criteria which, however, are not designated as CSOs.

4.52 Sections 28 and 48 of the Act set out other obligations on Australia Post which, as a private operator, it would not have to satisfy. Section 28, General governmental obligations, states:

> Australia Post shall perform its functions in a way consistent with:
>
> (a) any general policies of the Commonwealth Government notified by the Minister under section 48;
>
> (b) any directions given by the Minister under section 49; and
>
> (c) Australia's obligations under any convention.

4.53 Under section 48, the 'Minister may notify the Board of general policies of the Commonwealth Government that are to apply in relation to Australia Post'. The Bureau of Industry Economics suggested some of the policies that the Minister could notify under this section:

- Loan Council Arrangements;
- Industrial Relations Policies;
- Australian Traineeship Scheme;
- Procurement and Industrial Development Policies;
- Release of Commonwealth land; and
- Construction Industry Reform Policy (Submission 211, submissions p.693).

4.54 In 1992, the Industry Commission reviewed the relevance of section 48 of the Act commenting that each of the 'general policies has the potential to increase cost, reduce service quality, or restrict Australia Post's flexibility in responding to competitive pressure' (Industry Commission 1992, p.34). Consequently, the Industry Commission recommended that 'Australia Post no longer be subject to direction relating to general policies of the Commonwealth Government such as in borrowing, employment, and purchasing, and that section 48 of the Act be repealed' (Industry Commission 1992, p.34).

4.55 In regard to the requirements under section 48, Australia Post commented, in its *Annual Report 1994–95*, that the 'additional costs of complying with these policies in 1994–95, over and above commercial costs, was not significant' (Australia Post 1995, p.73).

Commercial obligations

4.56 While the obligations set out under sections 28 and 48 are not defined as CSOs, there is more certainty that they conflict with section 26, Commercial Obligations, which states that 'Australia Post shall, as far as practicable, perform its functions in a manner consistent with sound commercial practice'.

4.57 The Bureau of Industry Economics suggested that some of the arrangements set out under section 48 are not imposed on Australia Post's competitors. This situation may confer a competitive disadvantage on Australia Post. For example, 'under the Procurement and Industrial Development Policies, Australia Post may be purchasing equipment or materials of a lower quality and or higher cost than necessary' (Submission 211, submissions p.693). The BIE proposed:

> ... that each of the requirements imposed on Australia Post arising from Ministerial directions should be reviewed to determine whether they constitute a CSO under the definition proposed earlier. If they do constitute a CSO the government should determine whether it is appropriate that the requirements continue to apply. Where it is decided that they should apply, they should be clearly identified as CSOs (Submission 211, submissions pp.693–94).

4.58 A further issue arose concerning Australia Post's commercial obligations which are by nature inconsistent with its requirement to provide CSOs. Australia Post is expected to operate commercially achieving an after tax profit, paying tax and providing the Government with a dividend. Concern was raised that there is an 'inherent tension' between Australia Post's CSOs and its commercial obligations.

4.59 In 1992, Australia Post in evidence to the Industry Commission Inquiry commented that 'while GBE reform requires that the enterprises behave 'commercially', the public expectation is that it maintains all its current services and the accessibility of those services' (Industry Commission 1992, p.92). In 1995, in response to the same issue, a representative of Australia Post, Mr Gerry Ryan, commented:

> ... it is true that there are inherent tensions between social obligations and commercial obligations. But having said that, we think that the proceedings to date indicate that by and large those tensions are being effectively resolved. (Transcript, p.3).

Community perceptions of CSOs

4.60 Evidence to the inquiry suggested that the community's perception of Australia Post's CSOs is wider than the legislated requirement. In 1992, the Industry Commission recognised this and recommended that the 'Commonwealth Government more clearly specify and make public the extent of the community service obligations it expects Australia Post to satisfy' (Industry Commission 1992, p.100).

4.61 The Industry Commission suggested that many people in the public consider all of Australia Post's non-commercial activities to be CSOs. Australia Post suggested that these community perceptions extend to:

- provision of a parcel service Australia wide;
- provision of access, preferably through a retail outlet, to services as full postage assessment (eg for domestic and international large letters and parcels); bill payments; banking; money orders; passports; stationery; packaging etc; and

- preservation in postal use and restoration of General Post Offices; and other Post Offices which have local historic significance (Submission 104, submissions p.224).

4.62 Australia Post is required to provide a letter service as part of its CSOs, but all other services are subject to commercial considerations. The Industry Commission suggested that as a result of the community's expectation, 'it has often been difficult to discontinue those non-commercial services which are not necessary to meet the Government's social objectives' (Industry Commission 1992, p.xiv).

Heritage items

4.63 The expectation that Australia Post will maintain Post Offices that are heritage listed requires a significant expenditure. Australia Post has some 160 buildings, mostly GPOs, which are heritage listed. The maintenance of these buildings adds two types of costs to Australia Post's operations. First, are 'holding costs' which are 'measured by the return foregone on real estate which cannot be turned to more attractive commercial uses.' Second, is ongoing maintenance costs which are more expensive with older buildings because of sub-standard design. For example, many of the heritage listed buildings have high ceilings resulting in high heating costs. For 1994–95, Australia Post estimated that the cost of maintaining its heritage items was $15 to $20 million (Submission 104, submissions p.260). Australia Post, in a supplementary submission, revised this estimate indicating that the costs and penalties relating to heritage items amounted to $29.2 million (Submission 218, submissions p.848).

4.64 Evidence to the inquiry suggested that the large cost to Australia Post of maintaining heritage listed buildings should be recognised. The Industry Commission suggested this could be achieved through recognising them as a CSO in which case they would be added to Australia Post's expenditure as a CSO (Transcript, p.201). Alternatively, adjustments could be made to Australia Post's assets to recognise the operational worth of these buildings. This view was supported by the Department of Finance and Professor Rodney Maddock (Transcript, pp.222, 228).

4.65 Australia Post's management of its heritage buildings is subject to the *Australian Heritage Commission Act 1975* and other relevant legislation and regulations. Australia Post must seek approval from the Australian Heritage Commission before proceeding with any changes that might affect an historic building. This can include restoration of buildings, redesign or reconstruction of parts of buildings and the installation of services such as air conditioning (Industry Commission 1992, p.95).

Conclusions

4.66 Australia Post's objectives in providing both commercial and social objectives should not be understated but the financial performance and Australia Post's level of customer satisfaction both point to Australia Post having a fine match between its objectives. This is certainly the case in recent years with Australia Post recording significant profits and at the same time delivering its (CSOs). The committee accepts that there is the potential for conflict between Australia Post's commercial obligations and its CSOs. There are, however, checks and balances that would reveal any move by Australia Post to significantly downgrade its CSOs to offset a decline in its commercial performance. These checks include the Minister's ability under section 40 of the Act to review corporate plans and the review of performance measures by the Australian National Audit Office under section 28D.

4.67 The committee believes that every effort should be made to maximise Australia Post's ability to compete against its competitors. This will maximise its ability to maintain and improve CSOs. In applying this rule, a complication arises concerning what part of its operations constitute CSOs. The maintenance of heritage listed buildings is a classic example.

4.68 Australia Post's primary objective is to provide a uniform letter service at a uniform rate. In providing this service, Australia Post does not need to maintain heritage listed buildings costing in the order of $15 to $20 million. These buildings are costly to maintain, many are inefficient for the purposes of modern retail and sorting requirements, and for retail purposes their location may no longer be optimal. Consequently, Australia Post should be subject to the same requirements expected of private sector companies which own heritage listed buildings. That is, Australia Post should be free

to maintain those buildings which satisfy its commercial objectives or sell buildings which do not. In selling heritage buildings, the heritage obligation will attach to the new owner (Transcript, p.222). In addition, if Australia Post decides to retain heritage items, then the cost of these items should be reflected through an adjustment to Australia Post's assets.

4.69 In respect to other areas of Australia Post's operations that may constitute CSOs, Australia Post together with the Department of Finance should review those operations that may constitute CSOs. Where operations are considered to be CSOs, these should be legislated for. Where operations are not considered to be CSOs, Australia Post should be permitted to treat these in a commercial sense provided that they do not in any way reduce the legislated CSOs.

Recommendations

4.70 The committee recommends that:

12 Australia Post be subject to the same requirements, as private sector companies, to protect heritage listed buildings;

13 where Australia Post retains heritage listed items, the cost of maintaining these items should be recognised through adjustment in the value of Australia Post's assets; and

14 Australia Post and the Department of Finance review those operations that may constitute community service obligations (CSOs). Where operations are considered to be CSOs, these should be recognised. Where operations are not considered to be CSOs, Australia Post should be permitted to treat these in a commercial sense provided that they do not in any way reduce the legislated CSOs.

Chapter Five

PERFORMANCE MEASURES

Introduction

5.1 Australia Post is assessed against certain performance standards. These performance standards or indicators help to determine the effectiveness of Australia Post's usage of resources in delivering services. There is a need to fine tune and expand the range of performance measures. This will help to ensure that Australia Post is more accountable, more competitive and it is delivering its community service obligations (CSOs) effectively.

5.2 The inclusion of detailed performance standards in the Australian Postal Corporation Regulations will be undertaken at the completion of the committee's inquiry into Australia Post. This commitment was given in the second reading speech for the *Australian Postal Corporation Amendment Bill 1994.*

5.3 Division 1A, *Performance standards and audits,* of the *Australian Postal Corporation Act 1989* sets out the guidelines for developing performance standards for Australia Post. Australia Post already publishes a set of financial and non-financial performance indicators in its Annual Report.

5.4 This chapter will examine the current range of performance standards released by Australia Post focusing on their appropriateness and effectiveness. A range of performance measures will be recommended for inclusion in the Australian Postal Corporation Regulations.

Current performance requirements

5.5 The performance standards to be met by Australia Post are set out in section 28C of the *Australian Postal Corporation Act 1989* (the Act):

> 28C. (1) The regulations may prescribe performance standards (the **'prescribed performance standards'**) to be met by Australia Post.
>
> (2) The prescribed performance standards must relate to:
>
> (a) the frequency, speed or accuracy of mail delivery; or
>
> (b) the availability or accessibility of:
>
> (i) post-boxes or other mail lodgement points; or
>
> (ii) offices of Australia Post or other places from which Australia Post products or services may be purchased.

5.6 With respect to the regulations referred to in section 28C above, the then Parliamentary Secretary to the Minister for Defence, the Hon Arch Bevis, MP, in the second reading speech introducing the *Australian Postal Corporation Amendment Bill 1994*, commented that 'the regulations will not be made, however, until the HORSCOTCI (House of Representatives Standing Committee on Transport, Communications and Infrastructure) review into Australia Post's community service obligations is completed' (Australia, House of Representatives (Debates), 9 November 1994, p.2969). Mr Bevis commented:

> To reinforce the importance of Australia Post's community service obligations, the bill allows for regulations to be made setting out performance standards in relation to Australia Post's letter service. The standards may cover such things as mail deliveries, availability and accessibility of mailing boxes and availability of postal outlets (Australia, House of Representatives, (Debates) 9 November 1994, p.2969).

5.7 Section 28D of the Act sets out guidelines for the Auditor-General to report on compliance with prescribed performance standards. This will take effect once the performance standards are set down in the regulations and will occur each financial year. Upon completion of the audit, the Auditor-General will give the report to the Minister on or before 1 November in the next financial year. The Minister must then provide a copy to each House of the Parliament within 15 sitting days of receiving the report from the Auditor-General.

5.8 Section 28E of the Act provides for Australia Post to develop service improvement plans. If the Auditor-General's performance audit report finds that Australia Post has not met prescribed performance standards, then 'Australia Post must prepare a service improvement plan to ensure it meets that prescribed performance standard as soon as practicable'.

Performance measures

5.9 Performance measures provide a means to assess the efficiency, effectiveness and appropriateness of the operations of Government Business Enterprises (GBEs). The Industry Commission stated that a 'necessary complement to management responsibility and autonomy is the development of mechanisms to monitor the performance of public enterprises against their stated objectives' (Industry Commission 1994, p.15).

5.10 Another purpose of performance measures, in relation to GBEs, is to provide competitive pressures. Some GBEs, with monopoly elements, are not subject to competition. The development of performance measures will help to introduce a proxy form of competition. The Bureau of Industry Economics stated:

> Where competition in an organisation or industry is limited, the incentive for good performance is reduced. In such cases, organisational or industry performance targets or benchmarks are sometimes set as proxies for the outcomes expected from rigorous competition. In setting these performance targets, comparisons are often made with similar organisations or industries which operate in more competitive environments, or which are recognised as best practice operations (Bureau of Industry Economics 1994, p.13).

5.11 The objectives of a GBE should be accompanied by a 'small basket of performance information'. From this information, a GBE can assess its objectives or targets against outcomes. In cases where outcomes do not meet objectives or targets, ameliorative policies can be implemented. The Department of Finance (DoF) (1995) defines performance information as 'evidence about performance that is collected and used systematically'. Performance measures are usually quantitative and non-quantitative and may be about outcomes or factors affecting outcomes. DoF (1995) stated that 'quality adds an important dimension to all these concepts'. Qualitative indicators relate to clients' perceptions and expectations.

5.12 The Accountability and Ministerial Oversight Arrangements for Government Business Enterprises sets out certain requirements relating to performance measures. In particular, section 5(c) states:

> ... as a minimum benchmark, GBEs to achieve over time economic rates of return on assets for their commercial operations equivalent to the long term bond rate plus an appropriate margin for risk; it would also be appropriate to employ a range of other targets and indicators, including traditional accounting targets and non-financial indicators.

5.13 The Accountability and Ministerial Oversight Arrangements for Government Business Enterprises stress the importance of using a range of indicators to assess performance. The Industry Commission acknowledged that, on its own, a financial target, such as the rate of return, is not a sufficient test of performance. Consequently, the Industry Commission states that 'non-financial indicators should therefore be used to complement financial targets as indicators of GBE performance' (Industry Commission 1994, p.16).

Monitoring performance

5.14 There are a range of methods available to monitor performance. First, is the Accountability and Ministerial Oversight Arrangements for Government Business Enterprises requirement that GBEs should include in their corporate plans information regarding 'non-financial performance information' and 'review of performance against past plans and targets'. With respect to CSOs, corporate plans should include, 'CSO details and costs including strategies for minimising costs'.

5.15 The corporate plans of GBEs, however, are confidential and remain a management tool. The Joint Committee of Public Accounts commented that there 'is no publicly available information about the nature of the undertaking between Minister and GBE for the supply of CSOs' (Public Accounts 1995, p.90). Australia Post, however, did publish information about its CSO objectives in its *1992* Annual Report.

5.16 A second method for monitoring performance is through information provided in annual reports. Australia Post's Annual Report provides financial and non-financial indicators. For example, a five year statistical summary is provided which includes the cost of CSOs. Further tables show statistics on Australia Post's mail delivery networks, postal outlets, price variation, sender and recipients access to the postal network, frequency of services to delivery points, delivery timetable and overall letter service performance.

5.17 A third method of monitoring performance of GBEs is through the Steering Committee on National Performance Monitoring of Government Trading Enterprises report *Government Trading Enterprises Performance Indicators 1989–90 to 1993–94.* This report includes a set of financial and non-financial indicators, for Australia Post. Information on each performance indicator is shown for the previous five years revealing trends in performance.

5.18 A further method of examining performance is through efficiency audits carried out by the Auditor-General. The Joint Committee of Public Accounts commented that under the 'current arrangements the Auditor-General does not carry out efficiency or performance audits on GBEs unless the responsible Minister makes such a request' (Joint Committee of Public Accounts 1995, p.95). Section 28D of the *Australian Postal Corporation Act 1989* does, however, provide the Auditor-General with the power to conduct a performance audit, and report, on Australia Post's compliance with prescribed performance standards.

5.19 Australia Post also assesses customer satisfaction and delivery reliability through surveys. For example, KPMG conducts a survey each month in which 22 000 to 28 000 test letters prepared by KPMG are put through the mail network. The results from time sent to time received provide an indicator of delivery reliability. Australia Post also surveys private and business customers of its services.

Conclusions

5.20 The committee's task is to recommend the inclusion, into the Australian Postal Corporation Regulations, of performance standards which relate mainly to the letter service and focus on mail deliveries, availability and accessibility of mailing boxes, and availability of postal outlets. At the same time, the committee believes that a range of financial indicators also should be included. This is justified on the grounds that financial performance is an indicator of ability to provide CSOs. The following conclusions will, therefore, discuss the need for both financial and non-financial indicators.

5.21 Australia Post's annual reports provide a useful source of indicators. This information is provided in a statistical summary which allows for time series analysis for the more significant financial and non-financial indicators. The information provided is a useful source from which to develop performance measures.

5.22 The Steering Committee on National Performance Monitoring of Government Trading Enterprises report *Government Trading Enterprises Performance Indicators 1989–90 to 1993–94,* provides another important source of performance indicators, all of which are shown each year for the previous five years.

5.23 Australia Post's corporate plan, which is confidential for commercial reasons, is the vehicle for setting performance targets with agreement by the Government (Submission 218, submissions p.800). Australia Post did, however, publicise its key corporate plan targets for 1994–95 in the *Annual Report 1994–95*. Six key targets were reported. In future, it would be more helpful if Australia Post could release more performance targets, taking into account the commercial sensitivity of certain information. The key corporate plan targets for 1994–95 included:

- no increase in the price of basic postage, until at least January 1997;
- labour productivity growth of 5.4 percent;
- deliver 92 percent of letters on time as measured by external auditors;
- profit before tax of $297m;
- return on assets of 16 percent; and
- dividend of 50 percent of profit after tax and abnormals (Australia Post 1995, p.73).

5.24 Australia Post published performance outcomes against these targets:

- the standard letter rate held at 45 cents (unchanged since January 1992);
- 6.4 percent productivity improvement;
- delivered 93.6 per cent of letters on time;
- profit before tax and abnormals of $331.6m;
- 16.5 percent on return on assets; and
- dividend of $120m paid or provided for (50.3 percent of profit after tax and abnormals).

5.25 These performance measures are useful and the method is technically correct in comparing outcomes against targets. The figures show that Australia Post performed well against all targets.

5.26 Outcomes are easier to achieve, however, if performance targets are conservatively set. For example, Australia Post set a delivery target, for 1994–95, of 92 percent of letters delivered on time. The result for 1993-94 was 93.3 percent (Australia Post 1994, p.67). Therefore, Australia Post set a target in 1994–95 less than what it achieved in 1993–94. The difference is only 1.3 percent but this is not the issue. The issue is whether this is a valuable indicator to measure performance when Australia Post probably knew that it would easily match its target. Australia Post should have set a target for 1994–95 equal or greater than the actual result of the previous year.

5.27 The final target in the list above, relating to the dividend payment, is also notable. The target is a 'dividend of 50 percent of profit after tax and abnormals'. This 'target' provides no incentive to improve on the performance of the previous year. The only way this target cannot be met is if there was no profit after tax and abnormals. A more ambitious target for the dividend, and one that would place competitive pressures on Australia Post, would be one that is, in money terms, equal to or greater than the previous year's result. For example, Australia Post achieved a dividend of $90.1 million in 1993–94. A target for 1994–95 should use this figure as a starting point outlining how Australia Post will maintain or improve on the dividend achieved in 1993–94.

5.28 These two examples show, in contrast, the advantages of presenting performance measures for the previous five years, particularly in the absence of performance targets. This information will show trends and patterns in the results and more importantly show where Australia Post's performance is declining relative to previous years. Consequently, the performance indicators produced by the Steering Committee on National Performance Monitoring of Government Trading Enterprises in its report *Government Trading Enterprises Performance Indicators 1989–90 to 1993–94* provide the starting point for development of performance measures for inclusion in the Australia Postal Corporation Regulations.

5.29 It is recommended that Australia Post and the Steering Committee on National Performance Monitoring of Government Trading Enterprises should work together in developing performance measures for inclusion in the Australian Postal Corporation Regulations. The framework for the performance measures will be based on the comments that follow.

5.30 The *Government Trading Enterprises Performance Indicators 1989–90 to 1993–94* provides information for each of the past five years for a range of financial and non-financial indicators. These indicators do not fulfil the required performance standards as set out in section 28C of the Act. and reproduced in paragraph 5.5. To satisfy these provisions, the *Government Trading Enterprises Performance Indicators 1989–90 to 1993–94* must be supplemented with indicators on frequency and accuracy of mail delivery.

5.31 In addition, the information in the *Government Trading Enterprises Performance Indicators 1989–90 to 1993–94* needs to be expanded to provide for the information set out in section 28C(b) relating to accessibility of post-boxes or other mail lodgement points, and accessibility to offices of Australia Post. Australia Post already provides this information in its Annual Report. Therefore, Tables 2, 3, 4, 5, 6, 7, 8 and 9 in the Statistical Summary in Australia Post's Annual Report 1994–95 should be included with the information from the information in *Government Trading Enterprises Performance Indicators 1989–90 to 1993–94.*

5.32 The information contained in Australia Post's Statistical Tables listed above provide information on the current and previous year. These Tables show additional information on each State and in some cases by region. This information is useful and should continue to be provided in Australia Post's Annual Reports. For the purpose of the Regulations, however, the performance measures should provide information for each year during the past five years.

5.33 This information would allow the Auditor-General to examine performance against the outcomes of previous years. At the same time, the Auditor-General is entitled, under section 28D(3) to examine Australia Post's corporate plan so as to assess performance against targets identified in the corporate plan. These two sources of information will give the Auditor-General a sound base from which to assess performance against prescribed targets.

5.34 In addition, the Auditor-General should be given the power to assess the appropriateness of performance targets. As shown in paragraphs 5.26 and 5.27, the appropriateness of Australia Post's targets, in the two examples previously discussed, are questionable. Where the Auditor-General believes that the targets set are too conservative and do not provide a competitive incentive, then an appropriate target for the following year should be made. This additional scrutiny will provide much more focus on the setting of Australia Post's targets and the performance required to match them. This process will provide a proxy form of competitive pressure on Australia Post.

5.35 Section 28D(4) of the *Australian Postal Corporation Act 1989* requires the Auditor-General to provide a report to the Minister on the extent to which Australia Post met the prescribed performance standards that were in force. The Minister then lays a copy of the report before each House of Parliament. If Australia Post has not met certain performance standards, then it must develop service improvement plans as provided for under section 28E of the Act. These plans must be given to the Minister on or before 1 March in the financial year after the financial year to which the performance audit report relates.

5.36 The committee believes that the Auditor-General's performance audit report into Australia Post's compliance with performance standards and Australia Post's service improvement plans are vital documents and should be readily accessible. To this end, the committee concludes that these documents should be reproduced in Australia Post's Annual Report in the financial year after the financial year to which the reports relate. Through this measure, greater public scrutiny of Australia Post's performance will be possible.

5.37 Finally, the initiative recommended in this report in recommendation 3 should be included as a new performance target for Australia Post.

Recommendations

5.38 The committee recommends that:

15 Australia Post and the Steering Committee on National Performance Monitoring of Government Trading Enterprises develop performance standards for inclusion in the Australian Postal Corporation Regulations. The performance standards will contain a range of financial and non-financial indicators;

16 the Auditor-General, in addition to the powers set out in section 28D of the *Australian Postal Corporation Act 1989*, be given the power to comment on the appropriateness of performance targets set by Australia Post;

17 summaries of the Auditor-General's performance audit report into Australia Post's compliance with performance standards and Australia Post's service improvement plans should be reproduced, in Australia Post's Annual Report in the financial year after the financial year to which the reports relate; and

18 the initiative proposed in recommendation 3 be included as a new performance target in Australia Post's Corporate Plan.

Australia Post's rate of return

5.39 The rate of return (RoR) is a significant indicator of financial performance. The RoR is presented as a percentage and 'relates income to the value of assets used to generate that income' (Bureau of Industry Economics 1995, p.43). The Bureau of Industry Economics commented on how RoR targets can improve performance:

> They provide GBEs with a clear commercial objective. Achievement of a RoR target can indicate that a GBE has recovered, through its pricing and production behaviour, all the costs associated with the infrastructure goods and services it provides (Bureau of Industry Economics 1995, p.43).

5.40 Australia Post has recorded a significant improvement in its rate of return increasing from 9.7 percent in 1990–91 to 18.7 percent in 1994–95. These figures are calculated after the cost of CSOs have been added to total revenue.

5.41 Australia Post indicated, in its *Annual Report 1994–95*, a target rate of return of 16 percent. It also indicated that performance against this target was 16.5 percent. This RoR figure was calculated by dividing operating profit before interest, abnormals and income tax by average total assets (Australia Post 1995, p.73). Australia Post records different RoRs based on the formula used. For example, the RoRs cited on page 76 of the *Annual Report 1994–95* do not include the cost of CSOs.

5.42 Evidence provided to the committee suggested that Australia Post's method of calculating its RoR by adding in the cost of CSOs is incorrect (Submission 223 and Transcript, p.102). This criticism relates to the fact that Australia Post's CSOs are generated by cross-subsidy provisions. That is, the cost of CSOs is funded by consumers of the service and incorporated in general operating revenue. Australia Post then calculates the cost of CSOs and adds that to general revenue to estimate certain RoRs.

5.43 The Bureau of Industry Economics stated:

> ... the inclusion of the estimated cost of delivering the CSO where these costs have already been funded via cross-subsidisation—which appears to be the current practice for Australia Post—is in the BIE's view a form of double counting. It has the impact of overstating rate of return performance and is likely to result in overly favourable assessments of performance (Submission 223, submissions pp.834–35).

Conclusions

5.44 The rate of return (RoR) is an important indicator of financial performance. In 1994–95, Australia Post set a target rate of return of 16 percent and its performance outcome was 16.5 percent. The RoR is presented as a percentage and 'relates income to the value of assets used to generate that income'. Australia Post calculates RoRs excluding and including the cost of community service obligations (CSOs). The committee notes that the RoR excluding the cost of CSOs is the predominant figure cited in Australia Post's annual report and Australia Post has advised that this is the RoR assessed against the target rate of return.

5.45 Not withstanding this, the Bureau of Industry Economics (BIE) has criticised the method of adding in the cost of CSOs to calculate a RoR figure. As Australia Post's CSOs are generated by cross-subsidy provisions, the process of adding the cost of CSOs to revenue may be a form of double counting. The committee believes there is cogency in the BIE's concerns. The committee recommends that the Department of Finance assess Australia Post's practice of adding in the cost of CSOs to arrive at an RoR figure. If this assessment finds that there is, in fact, a form of double counting then Australia Post should discontinue this practice and there be only one rate of return figure.

Recommendation

5.46 The committee recommends that:

19 the Department of Finance examine and advise government about the appropriateness of Australia Post's practice of adding in the cost of community service obligations (CSOs) to arrive at a rate of return figure.

Chapter Six

CHARTER OF RESPONSIBILITIES

Introduction

6.1 The previous chapter discussed the need for, and development of, performance measures for Australia Post. This chapter builds on this information in examining the need for a Charter of Responsibilities for Australia Post.

6.2 The use of charters of responsibilities to guide the delivery of public services is gaining ground. The Federal Government is developing a framework for service charters for Commonwealth departments, statutory authorities and national utilities.

6.3 In the UK, there is growing use of customer charters. In 1991, the British Government released the Citizen's Charter which provided reasons and guidelines for developing charters. The guiding principle was to ensure that public services are more accountable and more responsive to users. In Australia, the drive for customer charters is related to competition policy reforms. Customer charters aim to improve the quality of services in cases where monopoly provisions still apply.

The purpose of a charter

6.4 Charters are one form of setting, delivering and measuring standards of service. There are differences, however, between charters and performance standards. The Federal Bureau of Consumer Affairs (FBCA) commented that 'charters have been used to outline a statement of general principles setting out what public service users can expect from the whole of government' (Submission 230, submissions p.941).

6.5 For example, the British Citizen's charter sets out seven guiding principles of a charter, include the following.

- **Standards** Explicit standards, published and prominently displayed at the point of delivery. There should be a clear presumption that standards will be progressively improved as services become more efficient.

- **Openness** There should be no secrecy about how public services are run, how much they cost, who is in charge, and whether or not they are meeting their standards.

- **Information** Full accurate information should be readily available, in plain language, about what services are being provided. Targets should be published, together with full and audited information about the results achieved.

- **Choice** The public sector should provide choice wherever practicable. The people affected by services should be consulted. Their views about the services they use should be sought regularly and systematically to inform decisions about what services should be provided.

- **Non-discrimination** Services should be available regardless of race or sex. Leaflets are being printed in minority languages where there is a need.

- **Accessibility** Services should be run to suit the convenience of customers, not staff. This means flexible opening hours, and telephone inquiry points that direct callers quickly to someone who can help them.

> **And if things go wrong**? At the very least, the citizen is entitled to a good explanation, or an apology. There should be a well-publicised and readily available complaints procedure (British Government 1991, p.5).

6.6 In addition to setting out principles of service, charters are administrative documents that can assist an agency in improving strategies in relation to quality of service and service delivery (Submission 230, submissions p.941).

6.7 Performance standards provide more detailed information relating to service standards and financial information. Chapter Five provides a discussion of performance standards for Australia Post.

6.8 Charters, in addition to setting out the standards which customers can expect, also aim to:

- improve service quality by producing a customer focused organisational culture; and
- improve efficiency and effectiveness.

Improving service quality

6.9 The growing use of customer charters reflect changing attitudes to the delivery of public services. In the past, public agencies were criticised because, often, policies and programs were designed with the interests of the service provider taking priority. These problems stem from inadequate consultation with the public about how programs should be designed and delivered. In 1976, the Royal Commission on Australian Government Administration (RCAGA), suggested that there was tension and even 'conflict between the community and governments and their servants' (RCAGA 1976, p.125). The Royal Commission received evidence from the public complaining about access to services, poor response times and a need for the public to have a more effective role in the decision making process.

6.10 RCAGA *stated:*

> The commonest criticism has been that many officials in face-to-face contact with members of the community seeking such access were unsympathetic to the needs, wishes and sensibilities of those to whom the services are directed, that the officials responsible at a higher level were either uninformed about or indifferent to complaints, and that procedures for informing and involving them were poorly developed (RCAGA 1976, p.20).

6.11 These comments were made twenty years ago and since then improvements in service delivery have been made. The use of customer charters seeks to improve the quality of service delivery even further.

6.12 A customer charter, if carefully developed and embraced by an organisation, can help to change the culture of the organisation. The charter can help to refocus service delivery and the aims of the organisation back to the needs of the customer. The Department of Communications and the Arts (DCA), in its submission, commented that a charter 'can establish a set of specific service undertakings so that employees and customers know what standard of individual service is expected, in effect, strengthening the customer service culture of the organisation' (Submission 232, submissions p.985).

Efficiency and effectiveness

6.13 Another aspect of a charter is its role in improving efficiency and effectiveness, particularly in situations where an agency is not subject to the rigours of competition. A charter, in defining the quality and level of service that must be provided, provides incentive for an organisation to meet standards. In particular, a charter will provide ongoing incentives if standards of service are continually monitored and adjusted to reflect customer requirements. Through this process a charter can help to make an organisation more efficient and effective in delivering services. DCA commented that 'a charter can provide a transparent mechanism to place ongoing pressure on performance levels in the absence of competition' (Submission 232, submissions p.984).

The British Citizen's Charter

6.14 In 1991, the British Government introduced a government wide model, entitled *The Citizen's Charter, Raising the Standard.* The main objective of the charter was 'to make public servants answer better to the wishes of their users, and to raise their quality overall'.

6.15 The British Citizen Charter provides a useful introduction to charters of responsibilities. Although, it should be noted that since 1991 there have been further developments in the design of charters. For example, many charters are not just limited to the rights of consumers but also discuss their obligations and duties.

Standards

6.16 The British Citizen's Charter made comments about the development of a charter for postal services and indicated standards that British Post should try to achieve. The charter made it clear that performance standards will in future be set by the Secretary of State not by the Post Office. These standards include the following.

- The post office will in future give much greater publicity to both national and local service targets and to current performance against them.
- Royal Mail will provide greater local accountability by setting delivery reliability targets for its 120 postcode areas rather then its current 63 districts.
- The Post Office will display information about the maximum time that people can reasonably be expected to wait for service at post office counters.

Monitoring postal services

6.17 As part of the process of setting and publishing service standards, a follow on requirement is to monitor the delivery of standards. The British Citizen's Charter indicated that a new independent regulator will be established to advise the Secretary of State for Trade and Industry on a range of issues affecting the interests of Post Office customers.

Consumer redress

6.18 Another aspect of the British Citizen's Charter is the provision of consumer redress and compensation, if necessary. Some of the standards that apply include:

- the Post Office will provide much improved signposting of complaints and redress procedures, for example, in post offices and in information sent to all households in the UK;
- information will be available on the levels of compensation that can be expected; and
- all post office personnel dealing with the public will identify themselves clearly whether in direct contact, by telephone or in correspondence.

Conclusions

6.19 The British National Consumer Council's, *Charter Checklist*, suggests that one of the most important principles in developing a charter is consultation with customers. This ensures, as far as possible, that public services are there to serve the consumer and the charter is for the consumer.

6.20 In addition to the evidence already provided to the inquiry, specific information was needed about the development of a charter. The committee sought information from various groups, including: Australia Post; the Communications, Electrical and Plumbing Union; and consumer groups including the Major Mail Users of Australia; the Postal Services Consultative Council; the Isolated Children's Parents' Association; and the Federal Bureau of Consumer Affairs. In addition, the views of State Governments were sought.

6.21 After considering the available evidence, the committee concludes that a wider investigation is needed into a charter of responsibilities for Australia Post. The focus of this inquiry is Australia Post's rural and remote letter delivery services. A charter of responsibilities extends to all postal users including those in urban areas and any investigation should reflect the concerns of the wider community.

6.22 From the evidence provided to the inquiry, there was general support for the development of a charter of responsibilities for Australia Post. There was, however, some variety of opinion about what should be included in the charter, and how the information should be presented. In view of the need for further consultation regarding the issues relating to a charter of responsibilities, the committee believes that the objectives of a charter are broader than the present inquiry's focus on rural and remote communities.

6.23 The committee recommends that the Minister refer to the committee a new inquiry with terms of reference which ensure that all postal users are given the opportunity to contribute. In a new inquiry, the committee could investigate a number of issues relating to a charter of responsibilities for Australia Post including:

- ways to maximise consultation with postal users;
- postal standards in urban, rural and remote areas;
- monitoring provisions to ensure that the charter is achieving its objectives;
- complaints and consumer redress;

- *publicity;*
- the need for legislative change, if any; and
- the contribution of Australia Post employees in delivering the charter.

Recommendation

6.24 The committee recommends that:

20 the Minister for Communication and the Arts refer to the committee a new inquiry to examine the issues relevant to a charter of responsibilities for Australia Post. The inquiry should ensure that postal users in urban, rural and remote areas are given the opportunity to contribute.

Chapter Seven

THE REMOTE AIR SERVICE SUBSIDY SCHEME

Introduction

7.1 The Remote Air Services Subsidy (RASS) scheme subsidises five small airlines serving about 9 000 people in 200 ports in remote areas of Australia which have no alternative modes of transport available. The services provided include regular deliveries of mail, educational needs, general freight and transport of passengers.

7.2 The administration of the RASS is based on agreements between the Department of Transport and Regional Development and the Department of Finance. Evidence to the inquiry suggested that the scheme is inequitable and inefficient. It was acknowledged that any change in Australia Post's participation in the scheme may have an impact on the scheme's ability to provide its other services.

7.3 The scheme has been in a state of suspension since 1991. It has only been administered on a financial basis since that time. Effectively, no new applicants have come on to the scheme and no existing recipients have been removed. As the RASS scheme primarily provides mail, the administration of the scheme was raised in submissions to this inquiry. The Department of Transport indicated that the scheme is in a state of suspension until this committee has reported.

Background to the scheme

7.4 The Commonwealth Government first started providing subsidies for specific remote air services in 1957. The present RASS scheme began in 1982–83. The ports served are mainly in Queensland and Northern Territory with some ports also in South Australia and Western Australia.

Objectives

7.5 People in remote areas of Australia have access, through the scheme, to regular deliveries of mail, educational needs and general freight as well as transport of passengers. The Department of Transport reported that the 'recipients of services and applicants for entry is largely for the delivery of mail, primarily educational materials' (Submission 180, submissions p.565). Similarly, a review conducted by Dr Rolf Gerritsen, in 1991, found that the RASS services seem to be primarily for the carriage of mail rather than passengers' (Gerritsen 1991, p.14).

Funding

7.6 Commonwealth funding to five operators totalled $1 179 600 in 1993–94. Table 7.1 shows how the payment was divided.

Table 7.1 RASS operators and Commonwealth funding 1993–94

Operator	Area served	Funding $
Skyport Pty Ltd	Northern Territory routes from Alice Springs, Katherine and Tennant Creek	290 402
Augusta Airways Pty Ltd	Port Augusta–Channel Country	59 208
Helicopter Operators Pty Ltd (Air Mt Isa)	Mt Isa: northern and southern stations	66 293
Janlin Pty Ltd (Cape York Air Services)	Cape York Peninsula routes from Cairns	692 943
Ord Air Charter Pty Ltd	Wyndham–Kununurra–Kimberleys	70 754

Source Submission 180, submissions p.567.

7.7 In addition to the funding shown in Table 7.1, the Queensland Government provided 11 percent and the South Australian Government provided 22 percent of the total Augusta Airways subsidy. Australia Post paid 37 percent of Augusta Airways total subsidy. Australia Post has separate agreements with the other operators which are unrelated to the RASS subsidy.

7.8 During 1993–94, the Commonwealth provided 61 percent of the combined revenue of all services, State subsidies amounted to 3 percent and earned revenue 36 percent. Of earned revenue, passengers contributed 35 percent, mail 39 percent and freight 14 percent (Submission 180, submissions p.567).

7.9 The Department of Transport provided updated information for 1994–95. During this period, the total revenue of all operators was $719 998. Of this, passengers contributed 47 percent, mail 40 percent and freight 13 percent (Submission 224).

Eligibility criteria

7.10 Eligibility for inclusion in the scheme is based on two parts. The first part 'considers the extent of demand for the scheme at the port and the degree of remoteness of the port'. If a port does not meet this criteria, 'it is reassessed against the second set of criteria which takes account of special reasons why a subsidised air service may be justified' (Submission 180, submissions p.568). The criteria are:

> Grounds For Acceptance As A Regular Port Of Call:
>
> (a) There is sufficient demand for the present service—demand which yields an average of more than $35.00 in revenue from passengers and freight per week is considered to be an appropriate bench mark.
>
> (b) The port is beyond one hour's comfortable drive to a centre of population, at which basic economic and social necessities are catered for.
>
> (c) It is not served by or close to a sealed main road.
>
> (d) It is beyond 60km of an accessible aerodrome.
>
> Grounds For Reconsideration As A Regular Port Of Call:
>
> (a) Weather conditions render it inaccessible by road for a significant part of the year.
>
> (b) There are educational, welfare and medical reasons for needing a regular service.

7.11 There are no means or assets tests applied to applicants to the scheme. The Department of Transport indicated that as the scheme has been under review since 1990, no new applicants have been admitted to the scheme (Submission 180, submissions p.569).

7.12 Mrs B McCord commented, in her submission, that she had applied for entry to the scheme three times during the last six years. Her applications were rejected because her station could not generate the freight cost required (Submission 30, submission p.49). At the same time, a member of her family required educational material for distance education classes. The Northern Territory Council of Government School Organisations proposed that isolated families requiring educational resources be exempt from the minimum freight requirement under the scheme.

Problems with the RASS

7.13 The RASS scheme was subject to reviews in 1988, 1990 and in 1994. The first review by the Department of Transport and Communications 'favoured the transfer of the administration of the scheme to the States with continued Commonwealth funding through general revenue grants' (Submission 180, submissions p.571).

The Gerritsen Review

7.14 In 1990, Dr Rolf Gerritsen was commissioned to review the scheme. This review critically assessed the equity, efficiency and effectiveness of the scheme revealing major shortcomings with its performance. Gerritsen concluded:

> The Remote Air Services Subsidy Scheme is an inappropriate administrative arrangement either for the delivery of or for improving access to governmental services in remote areas. As presently administered, it is inefficient, too complex, inequitable, and faces a problem of unmet demand leading to an uncontrollable expansion of the RASS scheme's outlays. It overly focuses on the needs of particular individuals and inequitably treats different communities in remote localities (Submission 135, submissions p.382).

Administration

7.15 The scheme's administration is overly complicated. The South Australian and Queensland State Governments are involved in administration through direct funding to Augusta Airways. At the same time, the Queensland Government does not provide funding for services in its state boundary. Gerritsen reported that some RASS beneficiaries are charged $80 per landing while other beneficiaries pay nothing.

7.16 Gerritsen found the accountability mechanisms of the scheme to be ineffective. For example, the Department of Transport and Communications had no mechanism to monitor developments at individual ports. Gerritsen commented that 'a port might continue in the RASS scheme even though a sealed road had been constructed to the front door of the homestead!' (Gerritsen 1991, p.28). The point that a growing number of RASS ports were now served by navigable roads was made during public hearings (Transcript, p.35). The South Australian Government commented:

> While there are some stations and communities which may suffer extended road closures, it is doubtful whether road conditions justify year-round provision of an air service for local passenger carriage and freight delivery, and if they do, whether the Government should subsidise it (Submission 174, submissions p.521).

Expenditure

7.17 The scheme's expenditure control has been the subject of criticism. This is because the scheme was designed mainly as 'cost plus' subsidy scheme which paid operators a margin over their costs. Operators provided details on their costs and there was 'little detailed scrutiny by the Department of Transport and Communications of the determination of operational costs (Gerritsen 1991, p.28).

7.18 This view was supported by the South Australian Government which commented that the 'operator has no incentive either to reduce costs or to increase revenues' (Submission 174, submissions p.521).

Equity

7.19 Gerritsen's review found that access to the scheme is not based on need. In 1990, an examination of the 170 cattle stations served by the RASS showed that 45 were 'owned by large corporations, or foreign investors'. Gerritsen commented that 'some of the richest families and the most profitable corporations in Australia are in receipt of the RASS' (Gerritsen 1991, p.24).

7.20 It was suggested that these large corporate cattle stations, for example, have employees who are not necessarily affluent and, as such, are justified in receiving RASS services. Gerritsen addressed this point, confirming that private sector employees are the most impoverished group, after Aboriginal communities, who have claims to receiving the RASS service (Gerritsen 1991, p.25). At the same time, however, Gerritsen said large corporations must be responsible for the industrial conditions of its workforce which means paying market cost to provide employees with access to mail, education and health services provided by an air service. This view was supported by a representative of the South Australian Government, Dr Derek Scrafton, who commented that the 'provision of facilities is a direct corporate responsibility' (Transcript, p.171).

7.21 Gerritsen's report found the most disadvantaged groups were inadequately serviced by the RASS scheme. Gerritsen suggested that Aboriginal communities have claim to being the most disadvantaged in remote Australia, yet only 8 Aboriginal communities receive RASS services. Gerritsen commented that 'there must be at least a hundred or more Aboriginal communities that have a better claim on equity grounds than the corporate station owners of Australia' (Gerritsen 1991, p.25).

7.22 The House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs referred to the RASS scheme in the *Review of the Auditor-General's Audit Report No. 36, 1992–93: Aboriginal & Torres Strait Islander Commission: Community Infrastructure*. Under recommendation 7 of the report, the committee stated that 'the Minister for Transport, in deciding on the future of the Remote Air Services Subsidy Scheme, ensure that Aboriginal and Torres Strait Islander communities are fully consulted and ensure that they have access to basic air services where no suitable alternative mode of transport is available' (House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs 1994, p.13).

7.23 With respect to effectiveness, Gerritsen found that the scheme only meets ten to twenty percent of demand. At the time, Gerritsen suggested that this situation could lead to further administrative problems as criticism with the scheme intensifies (Gerritsen 1991, p.48).

7.24 Supporting these views, the South Australian Government commented, in its submission to the inquiry, that the scheme is 'economically inefficient and inequitable in its distribution' (Submission 174, submissions p.522). It suggested that reforms to the scheme should re-examine the criteria for inclusion in the scheme.

Discussion

7.25 In view of some of the criticisms of the RASS scheme, Gerritsen suggested that the scheme in its current form be abolished (Gerritsen 1991, p.20). The 1994 Prime Minister's Rural and Regional Taskforce also suggested that the Commonwealth should 'remove itself from providing a direct air service subsidy, in favour of an indirect one through Australia Post's Community Service Obligations' (Prime Minister's Regional and Rural Taskforce 1994, p.12).

7.26 When Australia Post was questioned about this proposal, its response was rejection on the grounds that RASS goes beyond mail services and it would 'not commit to passengers and freight' (Submission 218, submissions p.835). In addition, Australia Post suggested that there would be administrative difficulties if it took over the RASS scheme. First, in view of its commercial obligations it would 'examine the feasibility of introducing a new competitive tendering process for these services'. Australia Post made the claim that it was 'likely that duplicated air service networks would be created' (Submission 218, submissions p.835). A representative from Australia Post, Mr James Marshall, commented:

> ... in the event that RASS did not exist in its current form or was not funded in its current form, our position would be to commit to continual letter delivery service within the cost limits of our delivery policy and to reserve the right to determine how the letter delivery service would be carried out. In other words, we do not commit ourselves to the current carriers or the current routes and we would not be committed obviously to the freight and passenger business-that may come along with the carrier but it may not (Transcript, p.35).

7.27 This suggestion could result in a reduced level of mail services for some households on the RASS routes. This is based on the statement that delivery services would be provided 'within the cost limits of our delivery policy'. The Department of Finance suggested that if the RASS was withdrawn, 'then presumably Australia Post will face increased costs on those routes that are presently supported by RASS' (Transcript, p.220).

Conclusions

7.28 The Remote Air Services Subsidy (RASS) scheme subsidises five small airlines serving about 9 000 people in 200 ports in remote areas of Australia which, upon entry to the scheme, had no alternative modes of transport available. The services provided include regular deliveries of mail, educational needs, general freight and transport of passengers.

7.29 The scheme was the subject of two major reviews, one by Dr Rolf Gerritsen and the other by the Prime Minister's Rural and Regional Taskforce (the Woods Report). Gerritsen's review was highly critical of the scheme's administration, efficiency, equity and effectiveness. The Woods Report considered the scheme is important to remote communities but has serious limitations.

7.30 The purpose of this inquiry is to examine Australia Post's rural and remote postal services and, where necessary, make recommendations to improve these services. As such, the RASS scheme is only examined so far as it assists in providing mail services to rural and remote communities. The other services provided by the RASS, such as freight and passenger services, are outside the terms of reference of this inquiry. Therefore, it is not appropriate for the committee to make recommendations that may conflict with these other services. It is noted, however, that the scheme has been criticised for being inefficient, ineffective and inequitable.

7.31 The committee notes that the RASS scheme assists with mail services to people in rural and remote areas. Evidence to the inquiry suggested that if the RASS was abolished then Australia Post would face higher air freight costs in affected areas.

7.32 The committee notes that if the RASS scheme was reduced or abolished then Australia Post has stated that it would continue to provide mail services within its cost structure but would not commit to freight or passenger services.

Chapter Eight

FUTURE DIRECTIONS

Introduction

8.1 The previous chapters examined Australia Post's community service obligations (CSOs), their need, extent, measurement, and funding. There is a need for CSOs and they should continue to be funded by means of cross-subsidy. A further matter for the committee is to consider Australia Post's ability to continue to provide effective postal services in the short and long term.

8.2 In the immediate future, Australia Post will be subject to more intense scrutiny regarding its monopoly. It is expected that a review will be conducted, as part of the Competition Principles Agreement, into Australia Post's monopoly provisions. The findings of this review could be far reaching. As such, this chapter examines Australia Post's monopoly keeping in mind the needs of people in rural and remote areas and their need for an effective postal service.

The 1996–97 review of Australia Post

8.3 The then Minister for Communications, the Hon David Beddall, MP, discussed various reforms for Australia Post in a press release on 15 November 1993. As part of these reforms, the Minister indicated that Australia Post would be subject to a review commencing in July 1996 and concluding on or before June 1997. The Minister stated that the terms of reference for the review 'should be consistent with the Government's determinations on the findings of the National Competition Policy Review, including its policies on a declared access regime, monopoly pricing, competitive neutrality and regulatory restrictions on competition'. This review was based on the view 'that a public monopoly must justify the continuation of its monopoly position'.

8.4 The then Government's commitment to this review was reaffirmed in the second reading speech for the *Australian Postal Corporation Amendment Bill 1994*. The then Secretary to the Minister for Defence, the Hon Arch Bevis, MP, stated that the effects of reducing Australia Post's level of protection from 10 to 4 times the standard letter rate 'will be monitored closely and a further review of the remaining restrictions on competition will be undertaken in 1996–97' (Australia, House of Representatives (Debates), 9 November 1994, p.2970).

8.5 On 11 April 1995, the Commonwealth, States and Territories signed the Competition Principles Agreement. This agreement confirmed the principles of competition policy as suggested in the report of the National Competition Policy Review. Also, it was agreed that the parties to the agreement would strive to 'achieve and maintain consistent and complementary competition laws and policies which will apply to all businesses in Australia regardless of ownership'.

8.6 Section 5(3) of the Competition Principles Agreement states:

> ... each Party will develop a timetable by June 1996 for the review, and where appropriate, reform of all existing legislation that restricts competition by the year 2000.

8.7 On 28 June 1996, the Treasurer, the Hon Peter Costello, MP, released the Commonwealth Legislation Review Schedule. The schedule confirmed that the *Australian Postal Corporation Act 1989* will be subject to review in 1996–97. No indication was given which agency would conduct the review. The main contenders include the National Competition Council (NCC), the Productivity Commission (PC) and possibly the Department of Communications and the Arts.

Conclusions

8.8 The committee supports the Government's proposal to review Australia Post's monopoly status in line with competition principles. All Government Business Enterprises (GBEs) with monopoly provisions, including Australia Post, should be required to justify their monopoly status. This scrutiny will ensure that GBEs only have monopoly protection where it is clearly shown that there is a public benefit.

Australia Post's reserved letter service

8.9 The committee believes it has an understanding of the communication needs of rural and remote communities. These needs should be considered in any review of Australia Post's reserved services. Through the committee's inquiry, a range of evidence was collected on Australia Post's monopoly services, and its performance in the reserved and non-reserved services. The ability of Australia Post to continue providing services at current and increased levels was examined in the event that there were reductions in the level of the reserved services. As such, this information will be invaluable to the agency that conducts the future review and, in particular, when it applies the public benefits test.

8.10 The remainder of this chapter draws together the views on Australia Post's performance, its potential for further competition and the implications for communities in rural and remote areas if Australia Post's operating environment is changed. This debate does not seek to pre-empt the future review of Australia Post's letter monopoly. Rather, members of this committee have an obligation to ensure that the needs of rural and remote postal users are adequately represented. The following discussion is divided into five sections, including:

- a description of Australia Post's reserved services;
- an examination of postal services in Sweden, Finland and New Zealand;
- the implications for rural and remote users if the reserved services are reduced;
- analysis of Australia Post's financial projections for reducing the reserved letter service to 3, 2 or 1 times the standard letter rate; and
- the growth of indirect competition.

The nature of the reserved services

8.11 The reserved letter service, or letter monopoly, guarantees Australia Post the ability to provide universal access to a letter service at a uniform rate of postage. The services reserved to Australia Post are set out in section 29 of the Act:

> (1) Subject to section 30, Australia Post has the exclusive right to carry letters within Australia, whether the letters originated within or outside Australia.
>
> (2) The reservation of services to Australia Post under subsection (1) extends to:
>
> (a) the collection, within Australia, of letters for delivery within Australia; and
>
> (b) the delivery of letters within Australia.
>
> (3) Australia Post also has the exclusive right to issue postage stamps within Australia.

8.12 The exemptions to the reserved services are described in section 30 of the *Australian Postal Corporation Act* 1989. Competition is permitted in the postal market where the carriage of a letter within Australia for a charge or fee is at least four times the rate of postage of a current standard postal article by ordinary post or the weight of the letter exceeds 250 grams.

8.13 Australia Post publishes information, in its Annual Report, on the revenue generated from reserved and non-reserved services. In 1994–95, reserved services accounted for $1 556.4 million or 55.9 percent of Australia Post's earnings. Table 8.1 gives the estimated revenue from reserved and non-reserved services for 1994–95.

Table 8.1 Revenue from reserved and non-reserved services (1994–95)

	Reserved		Non-reserved		Total	
	$m	%	$m	%	$m	%
Revenue	1 556.4	55.9	1 227.0	44.1	2 783.4	100.0
Expenses	1 401.1		1 049.2		2 450.3	
Operating profit	155.3	46.6	177.8	53.4	333.1	100.0
Return on revenue		10.0		14.5		12.0
Assets employed	1 180.5	55.2	958.3	44.8	2 138.5	100.0
Return on assets		13.2		18.3		15.6

Source Australia Post Annual Report, 1994–95, p.76.

8.14 The provision of reserved and non-reserved services is integrated and provided throughout Australia Post's common facilities such as mail centres, Post Offices and transport and other facilities. Sampling and statistical methods are used to determine the revenue, expenses and separation of assets for reserved and non-reserved services (Australia Post 1995, p.76).

8.15 The relationship between the reserved services and community service obligations is important. The Industry Commission commented that if Australia Post's reserved letter service was removed then it could not provide community service obligations (CSOs) through cross-subsidy arrangements (Transcript, p.51, 188).

International comparisons

8.16 Internationally, only two countries have deregulated their postal service, Finland and Sweden. New Zealand's reserved letter service is set lower than Australia's, at 2 times the standard letter rate. Deregulation of New Zealand's postal service was planned for 1995, but opposition in the parliament blocked this proposal.

8.17 A general examination of Australia Post's performance against other postal services shows that it is highly ranked. Using domestic letter rates as an indicator, Australia Post ranks fourth in providing the lowest letter rate. Table 8.2 shows letter rates for 15 countries.

Table 8.2 Domestic Letter Rates April 1995

Country	Currency	Rate in original currency	Rate in cents (AUS)	Rank
New Zealand	NZ Dollar	0.45	42	1
Canada	CAN Dollar	0.43	44	2
USA	US Dollar	0.32	44	2
Australia	**AUS Dollar**	**0.45**	**45**	**4**
UK	£ Sterling	0.25	55	5
Italy	Lira	750	62	6
Sweden	Krona	3.7	70	7
Netherlands	Guilder	0.8	71	8
Switzerland	S Franc	0.6	72	9
Belgium	B Franc	16.0	77	10
Finland	Mark	2.4	77	10
France	F Franc	2.8	78	12
Denmark	Krone	3.75	95	13
Germany	Deutsh-Mark	1.0	99	14
Japan	Yen	80.0	131	15

Source Submission 104, submissions p.270.

8.18 Financial performance indicators also show Australia Post recording a similarly favourable outcome. Table 8.3 shows a range of key financial comparisons for a range of selected countries.

Table 8.3 Key financial comparisons 1992–93

Country	Profit millions	Income Tax	Dividend millions	Return on Assets %
Australia	A$249	Payable	A$62	12.5
Canada	C$39	Exempt	None	1.6
USA	US$–1765	Exempt	None	Negative
UK	£283	Payable	(1)	7.1
New Zealand	NZ$101	Payable	NZ$32	25.0

(1) None separately paid, but included in the External Financing Limit.

Source Submission 104, submissions p.270.

8.19 As Table 8.3 shows, Australia is one of the few countries in which its postal service pays both tax and a dividend. The following discussion will provide a brief overview of postal organisations in Finland, Sweden and New Zealand.

Sweden and Finland

8.20 Sweden and Finland are the only two countries in the world with deregulated postal systems. The usefulness of these comparisons to Australia's situation is debateable. Outback Australia is one of the least densely populated areas of the planet. Australia is approximately 22 times the size of Finland and 17 times the size of Sweden. Australia has a far greater challenge in providing a postal service to people in rural and remote areas.

8.21 Apart from the obvious geographical differences between Australia, Finland and Sweden, there are other features of note. The Chief Executive Officer of Finland Post suggested that one of the major challenges facing the organisation was not deregulation but the extent 'electronic communications will erode the demand for traditional letters' (Finland Post 1994).

8.22 Sweden has a history of competition occurring in its postal services. The monopoly provisions applying to the State Post Office excluded mail delivery within a city or town (Frycklund 1993, p.70). Under this system, a private mail service began operation in Stockholm in 1838. Since that time, there has been various attempts at operating private mail services.

8.23 In more recent times, a private mail company operating in Sweden, called City Mail, has provided a service in Stockholm since 1991. City Mail reaches 15 percent of Swedish households. The Postal Services Act sets out that a nationwide postal service will be provided and 'letters shall be delivered at a reasonable, uniform cost'. Sweden Post reported that it 'bears a considerable extra burden of costs in sustaining payment and counter services in low-population areas' (Sweden Post 1993, p.10).

New Zealand

8.24 New Zealand Post has been the subject of significant change during the last decade. The Post Office Review of 1986 (Mason Morris review) identified problems and proposed measures to return the postal business to profitability. The Mason Morris review described the New Zealand Post Office as inefficient, unprofitable and head office activities were 'over-centralised contributing massive overheads to the Post Office's cost structure' (Pearson 1987, p.41).

8.25 A key recommendation of the Mason Morris review was the separation of the Post Office into three separate businesses including telecommunications, postal and agency, and banking. In addition, a new management structure focused on results and improving efficiency and effectiveness. Five years after these changes, New Zealand Post was described as 'one of the most efficient and profitable postal services in the world' (Fogelberg 1992, p.29).

8.26 New Zealand's *Postal Services Act 1987* and the 1989 amendment provides for the protection of certain postal services in return for New Zealand Post providing 'price-equalised national letter delivery service' (Duncan and Bollard 1992, p.109). Cross-subsidy provisions are used to finance the price-equalised service. In addition, residents in remote areas were subject to an annual rural delivery box fee of $40 which was increased to $80 in March 1992. New Zealand Post announced, in its annual report 1995, the 'abolition of the controversial Rural Delivery fee'.

8.27 In 1989, an amendment to the Postal Services Act provided for a lowering of the reserved letter service thereby allowing a progressive introduction of competition. The reserved letter service was reduced in the following stages:

- $1.25 on 1 October 1989;
- $1.00 on 1 October 1990; and
- $0.80 on 1 October 1991 (Duncan and Bollard 1992: 109-110).

8.28 New Zealand Post's commercialisation and financial success has not been without cost. The possibility that these changes could lead to a decline in services for people in rural and remote areas was raised on numerous occasions in parliamentary debates. Mr Warren Kyd, MP, commented:

> The committee did look at the question of rural mail, which is clearly a matter of great concern for New Zealanders.... I can say that New Zealand Post indicated a possibility of perhaps having a reduced mail service to some rural areas in order to keep the letter cost down (New Zealand, House of Representatives, (Debates), 25 February 1993, p.13547).

8.29 In the period from 1987 to 1991, official post offices were reduced from 894 to 288. Postal agencies were reduced from 340 to 88 for the same period. Growth, however, occurred with stamp retailers increasing from 0 to 795 and post delivery centres from 0 to 513. (Duncan and Bollard 1992, p.113). New Zealand Post was taken to the High Court over the issue of post office closures. The judgements were in favour of New Zealand Post as under the State-Owned Enterprises Act, it had to be profitable and efficient.

8.30 The speed of reform was a crucial factor in ensuring that New Zealand Post became efficient and profitable. Duncan and Bollard suggested that 'if complete deregulation had accompanied corporatisation, New Zealand Post probably would have failed' (Duncan and Bollard 1992, p.118).

8.31 New Zealand Post's future path to deregulation was outlined in a press release, on 17 November 1994, by the Minister of Communications, the Hon Maurice Williamson, MP. The New Zealand Government proposed to introduce legislation to abolish New Zealand Post's statutory monopoly on the letter service. The Government did not proceed with legislation, however, as a change in party ranks ensured that the legislation would not be passed.[1]

Implications of competition for rural and remote communities

8.32 Chapter Four outlines various methods of funding Australia Post's CSOs. Under the existing cross-subsidy arrangements, some postal users are paying more than they should for a standard letter service, while users are paying less. Communities in rural and remote areas are, in most cases, the beneficiaries of cross-subsidies. The committee supports the continuation of cross-subsidies but warns that there is a delicate balance between Australia Post's revenue generation and its ability to cross-subsidise. The following discussion examines the implications for rural and remote communities if the reserved services are removed or reduced. The discussion draws on evidence from the inquiry and academic commentary.

8.33 Albon (1985) is a strong supporter of a deregulated Australian Postal system. In describing the likely outcome of deregulation, he stated:

> There is a difference between the theoretical optimality of competition and the actuality. Unfortunately, it is impossible to be precise about the outcome of unleashing competitive forces where they are currently suppressed. We can only speculate ...(Albon 1985, p.69).

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1 *The New Zealand Herald*, 28 June 1995.

8.34 Albon suggested that in a deregulated environment, Australia Post would be given complete independence and not be required to maintain a national network nor a uniform postage rate (Albon 1985, p.69). Under these conditions, Albon suggested that Australia Post's loss-making activities would definitely go unless it could operate them so as to cover their full economic cost' (Albon 1985, p.69).

8.35 A potential effect of deregulation is 'cream skimming', that is private companies targeting their operations in the more profitable mail areas, leaving Australia Post with the loss-making segments. For Albon this is not a problem as Australia Post 'would be able to charge what it liked for its services so they would not have to be loss-making' (Albon 1985, p.69). Albon discusses the winners and losers in a deregulated environment:

> Winners would be those who currently pay for the cross-subsidies. Their rates would fall at least three cents [1985 prices] on standard letters as a consequence of removing the urban to rural cross-subsidy, perhaps two additional cents because of not having to endure the general cost-inefficiency of Australia Post. Other users, especially those in rural areas, would have to pay considerably more, although the amount of the increase would be offset by access to carriers who operate at costs below that of the monopolised Australia Post (Albon 1985, p.70).

8.36 The Industry Commission (IC) also attempted to describe what would occur in a deregulated environment but did acknowledge that 'it is not possible to say precisely how many operators would enter the market to supply letter services and how extensive the coverage of their networks would be' (Industry Commission 1992, p.188).

8.37 With respect to rural and remote areas, the IC scenario suggested that the 'volume of mail would be insufficient to support even one operator in many rural and remote areas in the absence of Australia Post's community service obligations'. To compensate for this situation, the charges would be higher for sending mail to and from rural and remote areas and delivery frequency would decrease (Industry Commission 1992, p.198). The IC commented:

> Because people living in rural and remote areas do not bear the full costs associated with providing mail services through Australia Post's network, the coverage of the network based on what they were prepared to pay for mail services would be less. A number of households and businesses, and it is not possible to say how many, would no longer be serviced on a regular basis (Industry Commission 1992, p.199).

8.38 In response to the IC's proposal to deregulate the postal service, a representative of the Department of Communications and the Arts commented that the IC 'could not justify any benefit from doing it in that manner and we had no other knowledge of what the cost would be or benefits from following that track' (Transcript, p.48).

8.39 If full deregulation was introduced then it is possible the uniform national pricing policy would be abolished. That is, some providers would be able to provide a standard letter service below 45 cents, while other areas may pay considerably more. A representative from the Communications, Electrical and Plumbing Union (CEPU) commented that people in rural and remote areas would be the losers if the uniform national pricing policy was abolished. Mr Saunderson, of the CEPU, commented:

> If you took away the national price regime then the rural community would pay significantly more for their services and would probably in the end receive less services because of the increased price of them receiving those services from city and suburban providers (Transcript, p.131).

8.40 Australia Post suggested a similar outcome to the Communications, Electrical and Plumbing Union (CEPU) commenting that the reduced profits and dividends would lead to a reduced ability to cross-subsidise the standard letter service. Australia Post suggested that this would lead to:

> ... possibly less frequent deliveries; possibly a higher basic letter rate, if the cross-subsidy was to be continued in a revenue falling situation; and inevitably job reductions (Transcript, p.239).

8.41 The direction of letter communication is important to note. For example, rural and remote users send and receive letters. A large proportion of letters they receive come from urban areas. In a fully deregulated postal market the cost to send a letter to rural and remote areas could increase. A representative from the Bureau of Industry Economics acknowledged 'that under more relaxed arrangements I think you would find that people sending to those regions would find they might have to pay more for that service' (Transcript, p.105).

Effects of reducing the reserved letter rate

8.42 Australia Post was requested to provide information on the costs and benefits of reducing the reserved letter service to 3, 2 or 1 times the rate of postage for a standard letter. This information is contained in Table 8.4.

8.43 In addition to the information contained in Table 8.4, Australia Post commented that the subsidy of $10.1 million it currently distributes to 1 350 Licensees/Post Office Agents will be discontinued if its profitability is adversely affected.

Table 8.4 Impact on financial results by changing the reserved letter service

	1994–95 Actuals	Scenario A 3 times	Scenario B 2 times	Scenario C 1 times
Revenue ($m)	1 556.4	1 400.8	1 322.9	1 229.6
Expenses ($m)	1 401.1	1 331.0	1 296.0	1 254.0
Operating profit ($m)	155. 3	69.7	26.9	-24.4
Assets ($m)	1 180.5	1 180.5	1 180.5	1 180.5
Rate of return (%)	13.2	5.9	2.3	-2.1
Job losses (persons)	nil	2 272	3 407	4 770
Cost of redundancies ($m)	nil	57	86	120

Source Submission 218, submissions p.791.

8.44 Australia Post based its assumptions on information from a study by Cuthbertson and Richards (1990). From this study, Australia Post used a cross-price elasticity of 1.50. This elasticity of demand would lead to a revenue loss of 10 percent for scenario A, 15 percent for scenario B and 21 percent for scenario C (Submission 218, submission p.790).

8.45 Table 8.4 shows a significant turnaround in Australia Post's performance even if the reserved letter service was reduced to 3 times the standard letter rate. Operating profit, in the reserved services, would be reduced to $69.7 million, the rate of return would be reduced to 5.9 percent and a possible 2272 jobs would be lost. In addition, if Licensed Post Offices were forced to close down because they were no longer receiving subsidies, then Australia Post's ability to provide its CSOs could be diminished.

8.46 The Productivity Commission (PC) was provided with Australia Post's projections and asked to comment. The PC claimed that Australia Post used the wrong cross-price elasticity of demand figure from the study and instead of using -1.50, it should have used -0.52. The PC suggested that if the figure of -1.50 had been used to estimate the effects of reducing the reserved services from 10 to 4 times the standard letter rate, then Australia Post would have lost 90 percent of the market, and, of course, this has not occurred (Transcript 1996, p.52). A member of the committee pointed out, however, that the most significant changes involving market loss will occur once the changes fall to the core level, that is 1 to 2 times the standard letter rate.

8.47 The PC advised that the use of the wrong cross-price elasticity figure has exaggerated the loss of market Australia Post would experience under the various scenarios in Table 8.4. For example, Australia Post advised that reducing the reserved letter rate from $1.80 to $1.35 is a 33 percent change (this reduction is actually 25 percent) which would result in a 50 percent loss of market. According to the PC, if you use the cross-price elasticity figure of -0.52, the loss of market would be 13 percent, not 50 percent (Submission 243, submissions p.1093).

8.48 When the then Government announced the impending reduction of Australia Post's reserved services from 10 to 4 times the standard letter rate, Australia Post reacted with concern. It released a press release on 15 November 1993, entitled *Deregulation Goes Further Than Post's Recommendations* (Exhibit 11). Australia Post commented that 'this decision will mean that business valued at around $250 million a year which was previously protected under the letter monopoly will be open to competition'. In addition, 'it will lift further the pressure on Australia Post, stretching the enterprise to maintain its market share'.

8.49 Australia Post was asked to explain what effects had taken place, in the market, since the reserved services were reduced from 10 to 4 times the standard letter rate. This change took place on 1 January 1995, so about 19 months had eventuated since the change. This duration should have provided Australia Post with enough evidence to tell what loss of business had occurred as a result of the reduction. Australia Post, however, wavered on this matter, initially, commenting that 'it is a very difficult measure to get on the domestic side' (Transcript 1996, p.23).

8.50 The committee then suggested that Australia Post knew more about what would occur, based on its projections, if the reserved services were reduced from 4 down, than what has actually occurred in the market place since January 1995. Following this, Australia Post acknowledged that the reduction from 10 to 4 times the standard letter rate 'has not had an enormous impact' (Transcript 1996, p.25).

8.51 Australia Post, in a supplementary submission provided more information on the effects of reducing the reserved services from 10 to 4 times the standard letter rate. With this reduction, the weight protection was also reduced from 500gms to 250gms. As a result, Australia Post indicated that its growth in large letter volume dropped from 10.3 percent in 1994–95 to 2.6 percent in 1995–96. This decline in growth has resulted in 'an estimated revenue loss of some $14 million' (Submission 249, submissions p.1129).

8.52 In addition, revenue growth in the outgoing international mail market dropped from an average of 4.2 percent in the preceding two years to 2.8 percent in 1995–96. Australia Post estimated that this has resulted in a revenue loss of some $4 million. Australia Post warned that the effects of reducing the reserved services from 10 to 4 times the standard letter rate 'should not be taken as any guide at all as to what could emerge in the event of further reductions in the reserved services protection levels'. Australia Post concluded that with further exposure to competition, 'the potential for havoc is considerably greater' (Submission 249, submissions p.1129).

8.53 The 45 cent letter is the core source of revenue in the reserved services. Australia Post confirmed that 'it accounts for 90 percent by volume and 80 percent by revenue of the reserved services figure that is published in the annual report' (Transcript 1996, p.22). Australia Post warned, however, that if the level of protection was reduced to 45 cents, then 'it is quite possible that the profit impact would be between $70 and $100 million per year' (Transcript 1996, p.24).

The growth of indirect competition

8.54 Another reason why Australia Post advised against reducing the level of reserved services was because of the growth of indirect competition. Indirect competition includes the use of telephone, facsimile, electronic mail and the internet. Australia Post suggested that these services have the potential to reduce Australia Post's market share.

8.55 In 1994–95, Australia Post provided approximately 20 percent of Australia's communications needs. Australia Post reported that increasing direct and indirect competition has more than halved its share of the communication market over the past 28 years (Australia Post 1995, p.7). Australia Post's market share in 1960 was 47.3 percent which declined to 20.4 percent in 1990 (Industry Commission 1992, p.11).

8.56 While these figures are significant, it is important to remember that the total communications market has increased in size. During the past 30 years, growth in the message market has averaged 5.5 percent a year across all sectors. Australia Post's growth has been slower at 2.5 percent a year (Industry Commission 1992, p.11). In the past five years, the total articles sent through Australia Post has increased from 3.2 billion in 1990–91 to 3.8 billion in 1994-95 (Australia Post 1995, p.9).

8.57 The great unknown about postal services, in general, is the extent to which its use will decline as access to other communications technologies increases. Increasing use of the internet is the obvious example in which people are making greater use of modern communication technologies.

Conclusions

8.58 Proposals to change Australia Post's operating environment by reducing the reserved letter service must be examined carefully. The reserved service is the monopoly protection given to Australia Post and is currently set at 4 times the standard letter rate. In return, Australia Post must, as part of its community service obligation, provide universal access to a letter service at a uniform rate of postage. This service is funded through cross-subsidy arrangements rather than direct budgetary payments.

8.59 In considering the appropriateness of Australia Post's level of protection, the needs of people in rural and remote areas figured prominently. At the same time, the committee's inquiry took place in the light of national competition policy reforms.

8.60 The provision of a postal service in Australia faces many challenges. The large distances in Australia and remoteness of communities in the outback present numerous obstacles in providing a postal service which is effective, efficient and at the same time profitable.

8.61 The committee believes that it has an obligation to ensure that any changes to Australia Post's operating environment does not diminish its capacity to maintain and/or increase its community service obligations. At the same time, it is recognised that there may be gains to efficiency through more competition.

8.62 Other countries' postal systems were examined as a guide to understand how other postal services operate. Through this comparison, Australia Post was shown to perform favourably. In 1995, Australia registered the fourth lowest letter rate out of fifteen countries. Particular attention was given to those countries which have deregulated their postal service. Finland and Sweden are the only two countries to do this. Finland and Sweden, however, are not useful for comparison with Australia. Australia's size and population dispersion, for example, place greater pressures on the postal service.

8.63 The fact that only two countries in the world have deregulated their postal services could be construed as a warning against deregulation. The committee does not accept this reasoning in total as there may be a combination of various reasons why countries have not moved to deregulation. New Zealand has a lower level of protection compared to Australia Post and key financial indicators show New Zealand is performing stronger.

8.64 The proponents of full deregulation, for Australia's postal system, describe benefits arising from this change on the basis of a-priori reasoning. This means that as it is generally accepted fact that competition improves efficiency, therefore, the application of further competition to Australia Post will improve its performance. In general terms the committee does not disagree with this reasoning. The committee points out, however, that under a fully deregulated postal service there will be winners and losers. The evidence strongly suggests that people in rural and remote areas will be the losers.

8.65 The committee sought to explore what would occur in a deregulated environment. The Industry Commission, which recommended full deregulation in 1992, admitted that a number of households and businesses in rural and remote areas would no longer be serviced on a regular basis. The Bureau of Industry Economics admitted that people sending mail to rural and remote regions might have to pay more for that service. In addition, there are possibly significant administrative costs associated with interconnection resulting from differential rates. Australia Post indicated that restructuring associated with deregulation could lead to the loss of 9 000 to 13 000 jobs.

8.66 The current system is providing an efficient postal system which is subject to the pressure of the market through indirect competition. Irrespective of the growth in Australia Post's total articles since 1990, its share of the communications market is likely to decline. The speed and nature of the growth of indirect competition is the unknown factor. This, in many ways, defeats the arguments that Australia Post is protected and not performing efficiently. Rather, Australia Post is subject to competition now and that could increase.

8.67 When it was proposed that Australia Post's reserved services be reduced from 10 to 4 times the standard letter rate, Australia Post put out a press release warning of the consequences. First, it claimed that business valued at around $250 million a year which was previously protected under the letter monopoly will be open to competition. Second, it stated that it will lift pressure on Australia Post, stretching the enterprise to maintain its market share. The actual results of this deregulation have been much different. Australia Post has reported continuing growth and acknowledged, under questioning, that the reduction in the reserved services from 10 to 4 times the standard letter rate has not had an enormous impact.

8.68 Australia Post also provided information on the implications of reducing the level of protection to 45 cents. The 45 cent letter accounts for 80 percent of revenue in the reserved services. Australia Post suggested that if the reserved services were reduced to the level of 45 cents, then this could lead to a fall in profit of between $70m to $100m a year. It is difficult to test the accuracy of these figures, and this is more rightly a task for the organisation that conducts the review of Australia Post's monopoly provisions in 1996–97.

8.69 Australia Post is proud of survey results showing there is a high level of customer satisfaction with Australia Post services. This high level of support and identification by customers of Australia Post should not be underestimated. At the same time, however, Australia Post suggests that if it is exposed to competition it will lose market share. The committee believes that in view of Australia Post's incumbency, high level of support and strong corporate identity, its ability to withstand higher levels of competition is greater than it suggests.

8.70 In view of the previous comments, it is possible that Australia Post's reserved services could be reduced and not disadvantage rural and remote communities. The committee believes that New Zealand Post's performance with a reserved service set at two times the standard letter rate provides a useful benchmark for Australia Post. The geographic situation is much different and, as such, Australia Post's challenge in providing an efficient postal service is arguably greater than in New Zealand.

8.71 Irrespective of this, there may be justifiable reasons for reducing Australia Post's reserved services over time. First, this would provide an additional competitive incentive for Australia Post to perform and position itself as other communication technologies expand their position in the market. This is, arguably, the real threat to Australia Post, not competition from other postal providers.

8.72 Second, the Government may need to give Australia Post time in adjusting to its new operating environment. If, in the short, term, Australia Post does lose revenue, then the Government should absorb this as a cut in its dividend.

8.73 The analysis by the Productivity Commission (PC) suggests that Australia Post has overstated the loss of market it will experience as the reserved services are reduced. This provides some reassurance that Australia Post could operate at a reduced level of protection and continue to cross-subsidise the cost of community service obligations (CSOs).

8.74 The committee warns, however, against reducing the level of protection beyond the point at which Australia Post's core services will become exposed. If Australia Post could not cross-subsidise its CSOs, then the ability to provide services to people, including those in rural and remote areas could be put at risk.

8.75 The committee believes that if there are, in the future, reductions in Australia Post's reserved services, then it is vital that Australia Post's ability to cross-subsidise its CSOs not be compromised as discussed in Chapter Five.

8.76 The committee concludes that more detailed analysis of Australia Post's operations is required, focusing on:

- revenue generation in the reserved services;
- the comparative efficiencies of the reserved and non-reserved services;
- modelling on the question of reducing the reserved services to three, two and one times the standard letter rate; and
- the implications for Australia Post's operations as a result of potential growth in indirect competition from telephones, facsimile and electronic mail.

Mark Vaile MP
Chairman

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SUBMISSIONS

Number	Name of persons/organisation
1	A Russell
2	J Tucker
3	D McGlashan
4	N Parkins
5	M Cormick
6	D George
7	P Harvey
8	D Noonan, Best Physics Publication
9	K Hills
10	C Hopkins
11	H Thomas
12	J Findlow
13	FarMarCo
14	S Hopkins
15	L Finch
16	M Jackson
17	B Scott
18	A Harris
19	R&B Woodly
20	P Didlick
21	C McPhie
22	P Walsh, NSW Police Service
23	F Small
24	J Thomas
25	P England
26	W Dennis
27	M Hornabrook
28	L Henry
29	B Knight, The Bush Telegraph
30	Norland Pastoral Company Pty Ltd

Number	Name of persons/organisation
31	V Weber
32	L Brooks
33	B McLennan, Nimmitabel LPO
34	B Davidson
35	J Irving
36	D Hall
37	D Nichols
38	J Weston
39	N Sharp
40	L Sloan
41	W Kenyon
42	P Davis
43	MIA Business Enterprise Centre Ltd
44	T Lehman, NSW Farmers' Association
45	E Slight
46	L Irwin
47	F Nicholls
48	Bruthen and District Citizens Association
49	Innamincka Progress Association Inc
50	P Mullins
51	Country Women's Association of NSW
52	D Vresk
53	L Manning
54	Bruthen Licensed Post Office
55	P Ruthenberg
56	J Dear/Hall
57	Goodger Oil Co Pty Ltd
58	E Targett
59	G Nind
60	B Corkard
61	E Carson
62	W Riolo

Number	Name of persons/organisation
63	H Power
64	South Eastern Division of United Graziers Association
65	National Party of Australia - Queensland
66	J Harvey
67	Northern Australia Pastoral Co
68	O&A Rosier
69	K Schubert, Isolated Children's Parent's Association
70	B Ruthenberg
71	C Hart
72	C Coxen
73	P Slack-Smith
74	G Andrews
75	M Mayfield
76	A Gordon
77	A&A McFarlane
78	Poona Ratepayers and Progress Ass Inc
79	M Sloane
80	Walwa Primary School No. 2806
81	R Ellis
82	L Richardson
83	M Sanders
84	P&L Loveday
85	T Winn
86	South West Development Commission
87	M Thomas
88	Shire of Mt Marshall
89	I Vanstone
90	Bencubbin Business Development Group
91	KS & CA Hunt & Son Pty Ltd
92	R Baker
93	A Sheehan, Moolawatana Proprietors
94	C Ferguson

Number	Name of persons/organisation
95	Community of Bahgallah
96	H Jeffrey
97	CN & JV Johnston
98	Bencubbin Hardware & Agencies Pty Ltd
99	F Carr-Boyd
100	Taralga - Golspie Mail Retention Committee
101	A Morton
102	M Kirlew
103	K Schubert, Isolated Children's Parents' Association, supplementary submission
104	Australia Post
105	C Beebe
106	Northern Territory Cattlemen's Association Inc
107	P Roberts
108	A Simspon
109	L Sutton
110	B Calbert
111	V Cushum
112	G Tibbles, Casterton Branch ALP
113	S Walker, Isolated Children's Parents' Association
114	Mornington Shire Council
115	Peter (Sandwich) Hopcraft
116	S Beckett
117	C Raffan
118	Australian Sungold Queen Bees
119	S Hogan
120	H Stuber
121	National Party of Australia Linville Branch
122	Cattlemen's Union of Australia Inc
123	U Colgan
124	K Brosnan
125	L Butler
126	Bureau of Meteorology

Number	Name of persons/organisation
127	B Breakell
128	A Gething
129	R Gundry
130	Shire of Nungarin
131	G Smith
132	L Jones
133	J Smith
134	R Johnstone
135	R Gerritsen
136	P & N Compagnoni
137	A & J Solomano
138	M McGrath-Kerr
139	Shire of Merredin
140	W Gartside
141	K Fargher
142	Isolated Children's Parents' Association
143	J Sedgwick
144	F Hannagan
145	Wheatbelt Development Commission
146	Australian Newsagents Federation
147	Licensed Post Office (LPO) Gippsland
148	S Anderson
149	Victorian Farmers Federation
150	E Biggs
151	Shire of Chittering
152	RK & AL Smith
153	J Hodgkinson
154	EW & EB Benz
155	M Scott
156	A Saal
157	Northern Territory Council of Government School Organisation
158	R Forbes

Number	Name of persons/organisation
159	N Dundas
160	G Manger
161	F Hart
162	R Whafvon
163	M Simpson
164	H Finch
165	L & A Postle
166	I & N Campbell
167	C & H Keys
168	NSW Farmers Association
169	P Cross
170	J Harvey
171	E Slight
172	I & G Tiver
173	Commonwealth Department of Communications and the Arts
174	Government of South Australia - Transport Policy Unit
175	J & L Smith
176	J Verco
177	N Stuber
178	Government of Norfolk Island
179	Isolated Children's Parents' Association, Queensland Council
180	Commonwealth Department of Transport
181	Queensland Country Women's Association
182	A Amory
183	L Wilson
184	P Griffin
185	R&B Lamb
186	Aboriginal and Torres Strait Islander Commission
187	Mrs F Hibberd
188	Mr M Hughes
189	Mr/Ms A Harris
190	Mr D Higgon

Number	Name of persons/organisation
191	The Council of the Shire of Burke
192	Mr/Mrs D& J Rosier
193	Mr N Dundas
194	Mrs J Allwright
195	Minister for Health, Western Australia
196	Mr M Hughes, supplementary submission
197	Mr E Slight
198	Mr M Hughes, supplementary submission
199	Premier of Tasmania
200	Communications Electrical and Plumbing Union
201	Isolated Children's Parents' Association
202	The Cattlemen's Union of Australia Inc
203	Mr L Wainwright
204	Department of the Chief Minister, Northern Territory
205	Mr R Dawson
206	Minister for Education, Western Australia
207	Mr N Sharp
208	Cabinet Office, NSW
209	Wallace Emery & Associates Pty Ltd
210	D & J Rosier
211	Bureau of Industry Economics
212	Post Office Agents Association Ltd
213	Bureau of Transport and Communications Economics
214	Gloria Kelly
215	John Quiggin
216	Department of Finance
217	Prof Rodney Maddock
218	Australia Post, supplementary submission
219	Communications, Electrical and Plumbing Union, supplementary submission
220	Post Office Agents Association Limited
221	Aboriginal and Torres Strait Islander Commission, supplementary submission

Number	Name of persons/organisation
222	Saratoga and District Progress Association Inc
223	Bureau of Industry Economics, supplementary submission
224	Department of Transport, supplementary submission
225	Mrs D Sears
226	Isolated Children's Parents' Association of Australia Inc, supplementary submission
227	Caledonian Square Medical Centre
228	Wattle Bank Community Group Inc
229	Communications, Electrical and Plumbing Union, supplementary submission
230	Federal Bureau of Consumer Affairs
231	Australia Post, supplementary submission
232	Department of Communications and the Arts, supplementary submission
233	Department of Transport, supplementary submission
234	Mr M Hughes, supplementary submission
235	Aboriginal and Torres Strait Islander Commission, supplementary submission
236	Department of Transport and Regional Development, supplementary submission
237	Post Office Agents Association Limited, supplementary submission
238	Mr C Howe
239	Cabinet Office, NSW, supplementary submission
240	Postal Services Consultative Council
241	Communications, Electrical and Plumbing Union, supplementary submission
242	Government of Norfolk Island, supplementary submission
243	Productivity Commission
244	NSW Farmers' Association
245	Federal Bureau of Consumer Affairs
246	Queensland Government
247	South Australian Country Women's Association
248	Australia Post, supplementary submission
249	Australia Post, supplementary submission

EXHIBITS

1 Map presented by the School of Air showing the approximate location of network families as at 8 May 1995.

2 Map presented by Mr Waterhouse at the Broome public meeting.

3 Shire News No 15 and 16 presented by Mr Tarbuttan at the Broome public meeting.

4 Map showing request for extended mail run presented by G Miller at the Horsham public meeting.

5 Map presented by ATSIC Tennant Creek Regional Council at private meeting.

6 Document, entitled World's Longest Mail Run, presented by Mr T Kingham at the Leigh Creek public meeting.

7 Document, entitled *1992 ATSIC Housing and Community Infrastructure Needs Survey*, presented by ATSIC at the Canberra public hearing.

8 Document, entitled Australia Post: Sale of Stamps (from Australia Post) presented by the Australian Newsagents Federation at the Canberra public hearing.

9 Document entitled Information extracted from the Industry Commission Report on *Mail, Courier and Parcel Services* presented by the Industry Commission at the Canberra public hearing.

10 Attachments from submission 209, Wallace Emery & Associates Pty Ltd

11 Media Release by Hon David Beddall MP, Minister for Communications, dated 15 November 1993.

APPENDIX THREE

WITNESSES AT PUBLIC HEARINGS

Witnesses/Organisation	Date(s) of appearance
Individuals	
Professor Rolf Gerritsen	25-09-95
Professor Rodney Russell Maddock	26-10-95
Professor John Charles Quiggin	19-10-95
Aboriginal and Torres Strait Islander Commission	
Mr John Eldridge General Manager	28-09-95
Mr Colin John Plowman Assistant General Manager	28-09-95
Australia Post	
Mr Maurice Charles Castro Group Manager, Strategic Planning	25-09-95 26-10-95 22-07-96
Mr David Excel Group Manager, Retail	25-09-95 28-09-95 26-10-95
Mr Roland Hill Group Manager, Corporate Communications	25-09-95 26-10-95 22-07-96
Mr James John Marshall Group Manager, National Operations	25-09-95 22-07-96
Mr Gerald Patrick Ryan Secretary	25-09-95 28-09-95 26-10-95

Australian Newsagents Federation

Mr Ted Bauress	28-09-95
Mr Colin William Grinham Vice-Chairman	28-09-95
Mr Philip Adrian Hawke Adviser	28-09-95

Bureau of Industry Economics

Mr Ronald William Arnold Principal Economist	28-09-95

Bureau of Transport and Communications Economics

Mr Michael Robert Cronin Research Manager	25-09-95

Communications, Electrical and Plumbing Union

Mr Brian Keith Baulk National Assistant Secretary	22-07-96
Mr David Nevill Goulding Industrial Officer	28-09-95 22-07-96
Mr John Saunderson Consultant	28-09-95

Department of Communications and the Arts

Ms Jane Mary Lawless (Hanna) Assistant Director	25-09-95 22-07-96
Mr John Brian Neil Assistant Secretary	25-09-95 22-07-96
Mr Ross Edward Pearson Senior Officer	25-09-95

Department of Finance

Mr Roger Fisher Acting First Assistant Secretary	26-10-95
Mr Michael James Hutchinson Deputy Secretary	26-10-95
Mr David Ingham Acting Assistant Secretary	26-10-95
Mr Andrew Phillip Skewes Assistant Director	26-10-95

Department of Transport

Mr Bryce William French Director	25-09-95
Mr Tony Wheelens Acting Assistant Secretary	25-09-95

Federal Bureau of Consumer Affairs

Ms Janet Anne Murphy Assistant Secretary	22-07-96

Industry Commission (Productivity Commission)

Mr Trevor Cobbold Director	26-10-95 22-07-96
Mr Paul Coghlan Assistant Commissioner	26-10-95
Mr Robert Kerr First Assistant Commissioner	26-10-95 22-07-96

Major Mail Users of Australia Pty Ltd

Mr John Stanley Gillroy Chief Executive Officer	22-07-96

Post Office Agents Association

Mr Peter Colin Griffin State Committee, Victoria	28-09-95
Mr Douglas James Mitchell Adviser	28-09-95
Mrs Lesley Isobel Pyke Director and Tasmanian Chairman	28-09-95

South Australian Department of Transport

Dr Derek Scrafton Director-General	19-10-95