Australian
Competition &
Consumer
Commission

Assessing cross-subsidy in Australia Post

An ACCC report

JULY 2006

Produced by the ACCC Publishing Unit 07/06.

Contents

Glossary

ACCC	Australian Competition and Consumer Commission
attributable cost (AC)	costs that are part of a pool of common costs that are identifiable to a particular service by a separable cause and effect relationship
cross-subsidy	the supply of one group of services at a loss which is made up by the profits on the supply of another group(s) of services
direct cost (DC)	costs that are solely associated with a particular service and so are incremental to providing that service
fully distributed cost (FDC)	the sum of direct, attributable and unattributable costs allocated to the particular service or group of services
incremental cost (IC)	the additional cost incurred by producing a good or service (in addition to the other goods the firm produces)
non-reserved services	services that Australia Post provides in competition with other entities
regulatory accounting framework (RAF)	established by the record-keeping rule issued by the ACCC on 30 March 2005
regulatory accounts	the statement of financial performance, statement of capital employed, statement of movements in non-current asset values, statement of WACC and the statement of service group usage, required by the record-keeping rules
reserved services	postal services reserved to Australia Post under legislation, i.e. no other entity can provide these services
RKR	record-keeping rules; the ACCC may require Australia Post to keep records (a record-keeping rule) that relate to any of the ACCC's regulatory roles
service group	the service groups defined in schedule 1 of the record-keeping rule information provided by Australia Post
stand-alone cost (SAC)	the cost of producing each output in isolation
unattributable cost	costs that are part of a pool of common costs but are not readily identifiable (in whole or part) to any particular service by a separable cause and effect relationship
WACC	weighted average cost of capital

Summary

This report presents the results of the Australian Competition and Consumer Commission's (ACCC) analysis of Australia Post for the 2004–05 financial year to determine whether or not it is cross-subsidising from its reserved services to its non-reserved services. Reserved services are those services in which Australia Post has a statutory monopoly; non-reserved services are the services it provides in competition with others.

The ACCC was given this role in response to complaints that Australia Post was cross-subsidising its competitive services with revenues from its reserved services. In June 2004 the *Australian Postal Corporation Act 1989* was amended to allow the ACCC to issue record-keeping rules (RKRs) that are relevant to its regulatory functions. These amendments also placed an obligation on the ACCC to issue a RKR that would 'enable the ACCC to scrutinise whether or not Australia Post is cross-subsidising from the reserved services to the services it provides in competition with others'.[1]

The term cross-subsidy is often used to refer to any case where the profit from providing one service is used to cover a loss that is incurred in providing another service. However, a more formal definition of cross-subsidy has developed in economic literature and comprises two tests:

- A service is a potential source of subsidy if the revenue generated by that service is greater than the stand-alone cost of the service. Whether or not such a service is an actual source of subsidy depends on whether or not the second test is satisfied. That is, revenue greater than stand-alone cost is not, of itself, evidence of a cross-subsidy.
- A service is the recipient of a subsidy if the revenue generated by that service is not sufficient to cover the incremental cost of providing it.

The ACCC has therefore sought to identify whether the revenue from any non-reserved service group is less than the incremental cost of providing that service group and whether the revenue generated by the reserved services is greater than the stand-alone cost of providing them. In conducting this analysis the ACCC has used Australia Post's accounting data to derive estimates for the economic cost concepts of incremental and stand-alone cost.

This is the first report to set out the ACCC's analysis with respect to cross-subsidy. The ACCC expects to issue similar reports annually. While the ACCC believes that there may be benefits from disclosing information collected under the RKRs it has not yet finalised its consultation with Australia Post and other interested parties, or finalised its views about what information should be publicly released. Accordingly, this report does not disclose information that Australia Post considers is confidential. Such exclusions are indicated by '[information removed]' in the text, or '✂' in tables.

In allowing these exclusions from the report the ACCC is respecting Australia Post's claim of confidentiality. However, it is not necessarily satisfied that all of this information is confidential. Together with this report, the ACCC is releasing its preliminary views on the principles for the public disclosure of RKR information provided by Australia Post.[2] In this paper, the ACCC is seeking further comment from interested parties about the appropriate level of disclosure. Future reports may contain more information and the ACCC may re-issue this report if, after considering the views of interested parties, it considers a greater level of disclosure is appropriate.

1 Explanatory memorandum for the Postal Services Legislation Amendment Bill 2003, p. 40.

2 ACCC, *Principles for the public disclosure of record-keeping rule information provided by Australia Post, the ACCC's preliminary views*, July 2006, available from www.accc.gov.au.

Key findings

The key findings of the ACCC's analysis are:

- The regulatory accounts do not provide evidence of cross-subsidy from Australia Post's reserved services to the non-reserved services:
  - While the revenue from the reserved services is greater than the fully distributed cost of providing them (by $[information removed]), the fully distributed cost does not appear to be a reasonable estimate of stand-alone cost. To obtain a reasonable estimate of stand-alone cost, it is necessary to 'add back' costs that have been allocated to the non-reserved services but that would still be incurred if the non-reserved services were not offered. The ACCC is satisfied that adding back even a conservative estimate of these costs would result in revenue being less than the stand-alone cost of the reserved services. This means that the reserved services are not a source of subsidy.
  - Revenue from Australia Post's non-reserved services, however, appears to be greater than the upper bound of stand-alone cost of providing the non-reserved services, even when taking a conservative approach. This means that the non-reserved services (as a whole) do not receive a subsidy; rather they appear to be a possible source of subsidy.
- One non-reserved service group appears to have received a subsidy in 2004–05:
  - Revenue from [information removed] is less than the direct cost of providing that service by $[information removed]. However, as noted above, the source of subsidy appears to be the other non-reserved services, not the reserved services.
- Revenue from three other service groups is not sufficient to fully recover the cost of providing those services:
  - Revenue from small letters ordinary (reserved) and [information removed] (non-reserved) is less than the fully distributed cost of providing these services. However, revenue appears to be greater than the upper bound of incremental cost for these services, and so they do not appear to be the recipients of a subsidy.
  - Revenue from international inward (reserved) is not sufficient to cover the sum of direct and attributable costs of providing this service. However, as this is a reserved service, this does not appear to be a concern in the context of monitoring for the existence of cross-subsidy from the reserved services to the non-reserved services.

These results are not entirely unexpected because of the following:

- The reserved services are subject to the price notification provisions of Part VIIA of the *Trade Practices Act 1974*. This is intended to inhibit Australia Post's ability to exercise its market power in the reserved services, and so serves to limit its ability to make economic (or excess) profit from the reserved services.
- [information removed]
- Australia Post has previously stated that it does not fully recover the costs associated with small letters ordinary, and that other reserved services fund this shortfall. Australia Post considers this necessary to fund its community service obligations.[3]
- Payment for the delivery of international mail is generally overseen by the Universal Postal Union under a system, known as 'terminal dues'. The terminal dues payable to the destination postal operator are not based on the actual costs incurred in delivering that mail. Generally, the destination postal operator receives less revenue than its actual cost of delivery. The corollary of the loss in 'international inward' is the profit of $[information removed] in international outward, which is not reserved.

3 See for example, Australia Post's response to public submissions (at pp. 33–4) in the ACCC's consideration of Australia Post's 2002 price notification.

1. Introduction

As well as administering the *Trade Practices Act 1974* the Australian Competition and Consumer Commission (the ACCC) has three specific responsibilities in the regulation of postal services:

- monitoring for the presence of cross-subsidies between Australia Post's reserved and non-reserved services
- assessing proposed price increases of Australia Post's reserved services
- inquiring into certain disputes regarding the terms and conditions on which Australia Post supplies bulk mail services.

To assist it in undertaking these roles, the ACCC can issue record-keeping rules (RKRs) to Australia Post, thereby requiring Australia Post to keep the records specified and provide them to the ACCC.

The RKR provisions placed an obligation on the ACCC to issue Australia Post with a RKR about its reserved services. The purpose of this requirement was 'to enable the ACCC to scrutinise whether or not Australia Post is cross-subsidising from the reserved services to the services it provides in competition with others'.[4] This requirement was introduced to address allegations raised by some competitors of Australia Post that it was competing unfairly by using revenue from its reserved services to cross-subsidise the services it provides in competition with other businesses.[5]

In March 2005 the ACCC issued a RKR that established a regulatory accounting framework (RAF) for Australia Post. The primary purpose of the RAF is to allow the ACCC to monitor for the presence of cross-subsidy.

This is the first report to set out the ACCC's analysis for cross-subsidy.

While the ACCC believes that there may be benefits from disclosing information collected under the RAF, it has not yet finalised its consultation with Australia Post and other interested parties, or finalised its views about what information should be publicly released. Accordingly, this report does not disclose information that Australia Post considers is confidential. Together with this report, the ACCC is releasing its preliminary views on the principles for the public disclosure of RKR information provided by Australia Post.[6] In this paper the ACCC is seeking further comment from interested parties about the appropriate level of disclosure. Future reports may contain more information.

The remainder of this report is structured as follows:

- section 2 provides an overview of the ACCC's roles in the regulation of postal services
- section 3 outlines the ACCC's framework for monitoring for cross-subsidy
- section 4 sets out the results of the ACCC's cross-subsidy analysis
- section 5 presents the ACCC's conclusions.

4 Explanatory Memorandum to the Postal Services Legislation Amendment Bill 2003, p. 40.

5 Explanatory Memorandum to the Postal Services Legislation Amendment Bill 2003, p. 39.

6 ACCC, *Principles for the public disclosure of record-keeping rule information provided by Australia Post, the ACCC's preliminary views*, July 2006, available from www.accc.gov.au.

2. Background

This section provides an overview of the ACCC's roles in the regulation of postal services and outlines the RKR provisions of the *Australian Postal Corporation Act 1989*.

Australia Post

Australia Post is the government-owned provider of postal services in Australia. In 2004–05 it delivered 5.36 billion articles of mail to 9.87 million delivery points, had 34 804 employees and 4474 post offices, and served 1.1 million customers in its retail outlets each business day. It reported a post-tax net profit of $374.9 million (operating profit before tax of $524.5 million), representing a return on average operating assets of 17.1 per cent and a return on revenue of 12.1 per cent.[7]

In 1989 Australia Post was one of the first government businesses to be corporatised. The most significant aspect of this reform was that it provided for an independent board and a commercial charter, albeit with ongoing obligations to meet community service obligations.

Obligations on Australia Post

The Australian Postal Corporation Act imposes three general obligations on Australia Post:

- Australia Post must, as far as is practicable, perform its functions in a manner consistent with sound commercial practice.[8]
- Australia Post is required to meet certain community service obligations (which are outlined below).[9]
- Australia Post must perform its functions in a way consistent with general government policy and any directions given by the minister.[10]

Community service obligations

Australia Post has an obligation to supply a letter service. The purpose of the letter service is to, by physical means, carry letters within Australia and between Australia and places outside Australia.

Australia Post must, for letters that are standard postal articles, make the letter service available at a single uniform rate of postage for carriage within Australia.

In recognition of the social importance of the letter service, Australia Post must ensure that:

- the letter service is reasonably accessible to all people on an equitable basis, wherever they reside or carry on business
- the performance standards of the letter service reasonably meet the social, industrial and commercial needs of the Australian community.

Services 'reserved' to Australia Post

In recognition of its community service obligations, Australia Post has been granted a general monopoly—although this is limited by a number of exceptions—in the carriage and delivery of letters within Australia, whether the letters originated within or outside Australia.[11] In this context, the term 'letters' has a meaning that is wider than its general usage; the Australian Postal Corporation Act defines the term 'letter' as meaning any form of written communication that is directed to a particular person, or a particular address.[12]

7 Australia Post, *Annual Report*, 2004–05, pp. 2–10.
8 Section 26 of the Australian Postal Corporation Act.
9 Section 27 of the Australian Postal Corporation Act.
10 Section 28 of the Australian Postal Corporation Act.
11 Explanatory memorandum to the Australian Postal Corporation Bill 1989, p. 3.
12 Section 3 of the Australian Postal Corporation Act.

The services captured by this monopoly are generally referred to as 'reserved services' and extend to:

- the collection, within Australia, of letters for delivery within Australia
- the delivery of letters within Australia.

Australia Post also has the exclusive right to issue postage stamps within Australia.

As noted above, the reserved services are subject to a number of exceptions, which are detailed in s. 30 of the Australian Postal Corporation Act, and include:

- the carriage of a letter weighing more than 250 grams
- the carriage of a letter relating to goods that is sent and delivered with the goods
- the carriage of a newspaper, magazine, book, catalogue or leaflet, whether or not directed to a particular person or address and whether or not enclosed in any sort of cover
- the carriage of a letter otherwise than for reward
- the carriage of a letter within Australia for a charge or fee that is at least four times the then rate of postage for the carriage within Australia of a standard postal article by ordinary post.

The ACCC's roles in the regulation of postal services

The ACCC has three key responsibilities in the regulation of postal services. These responsibilities are contained in the Trade Practices Act and the Australian Postal Corporation Act and can be summarised as:

- monitoring for the presence of cross-subsidy between Australia Post's reserved and non-reserved services
- assessing proposed price increases of Australia Post's reserved services
- inquiring into certain disputes regarding the terms and conditions on which Australia Post supplies its bulk mail services.

This report deals only with the first of these roles—monitoring for cross-subsidy between the reserved and the non-reserved services.

Record-keeping rule powers

The RKR provisions were introduced to the Australian Postal Corporation Act by the *Postal Services Legislation Amendment Act 2004*. While one of the primary intentions of introducing these powers was to address concerns about cross-subsidisation, the ACCC may require Australia Post to keep records that relate to any of its regulatory roles.[13]

The ACCC may prepare and publish reports analysing the information provided to it under the RKRs[14] and the minister may direct the ACCC to prepare and publish reports analysing the information provided to it under the RKRs.[15] Such reports may include information that Australia Post claims is commercial-in-confidence if:[16]

- the ACCC is not satisfied that the claim is justified, or
- the ACCC considers it in the public interest to publish the information.

To date, only one RKR has been issued to Australia Post—in March 2005. In accordance with this RKR, Australia Post submitted its regulatory accounts to the ACCC on 15 November 2005. The regulatory accounts have been independently audited to ensure Australia Post has complied with the rules and the Regulatory Accounting Procedure Manual (RAPM).

13 Section 50H of the Australian Postal Corporation Act.

14 Section 50I of the Australian Postal Corporation Act.

15 Section 50J of the Australian Postal Corporation Act.

16 Section 50K of the Australian Postal Corporation Act.

3. Framework for monitoring for cross-subsidy

This section outlines the ACCC's framework for monitoring for cross-subsidy. The economic theory of cross-subsidy is first outlined, followed by a description of the information collected under the RAF and how the ACCC has used this accounting information to proxy economic concepts.

Economic theory of cross-subsidy

The economic theory of cross-subsidy seems reasonably settled and is based on the work of Gerald Faulhaber.[17] He explicitly defined subsidy-free pricing and presented two tests for the existence of cross-subsidisation:

- A service is the recipient of a cross-subsidy if the revenue generated by producing the service is less than the incremental cost of providing the service.
- A service is a potential source of subsidy if the revenue generated by providing the service is greater than the stand-alone cost of providing it. (Whether or not it is an actual source of subsidy depends on whether another service is the recipient of a subsidy or not.)

The incremental cost of a service is defined as the additional cost incurred by producing that service (in addition to the other services the firm produces). Another way of considering incremental cost is to ask 'what costs would be avoided, in the long run, if the service was no longer offered?'. If the revenue of each service is at least as great as the incremental cost of that service, then no cross-subsidy exists.

If any service is the recipient of a subsidy, identifying the source of subsidy requires identifying which service (if any) has revenues that are greater than the stand-alone cost of providing the service. The stand-alone cost of a service is the cost of producing that service in isolation.

Further, because costs are sometimes common to some, but not all of the services provided by a multi-product firm, Faulhaber's tests require testing not only each individual service, but also each group of services.

Key principles

The incremental cost test is a floor test with two parts:

- Revenue from each service must at least equal its incremental cost not to be the recipient of a subsidy.
- The combined revenue from all possible combinations of a firm's services must at least equal the incremental cost of providing that combination of services.

The stand-alone cost test is a ceiling test with two parts:

- Revenue from each service must not exceed its stand-alone cost not to be a potential source of a subsidy.
- The combined revenue from all possible combinations of a firm's services must not exceed the stand-alone cost of providing that combination of services.

When the firm is subject to a break-even constraint, the tests are equivalent. That is, to establish cross-subsidy, one need only identify a violation of either the stand-alone cost test or the incremental cost test. However, without a break-even constraint, failing the stand-alone cost test does not, of itself, indicate the presence of a cross-subsidy; the firm may simply be making economic (or excess) profit.

17 GR Faulhaber, 'Cross-subsidization: pricing in public enterprises', *American Economic Review*, 65(5), December, 1975, pp. 966–77.

Australia Post is not subject to a break-even constraint. Therefore, to establish that Australia Post is cross-subsidising its non-reserved services with revenues from its reserved services, it is necessary to establish that:

- revenue from a non-reserved service (and each group of non-reserved services) is less than the incremental cost of providing that non-reserved service (or group of non-reserved services) **and**
- revenue from Australia Post's reserved services is greater than the stand-alone cost of providing the reserved services **and**
- the revenue from every other non-reserved service or group of non-reserved services is not greater than the stand-alone cost of providing that service or group of services.

Where there are multiple potential sources of subsidy, it is impossible to determine which particular group of services provides the subsidy or what each group's contribution to the subsidy is. Alternatively, if revenue from the reserved services is less than the stand-alone cost of providing these services then there can be no cross-subsidy from the reserved to the non-reserved services. In this case, even if a non-reserved service is the recipient of a subsidy there must be an alternative source of subsidy, or Australia Post is operating at an economic loss.

The regulatory accounting framework

As noted earlier, in March 2005 the ACCC issued a RKR that established a RAF for Australia Post. In the RAF, Australia Post's product categories have been consolidated into 16 service groups (5 reserved, 11 non-reserved).

Australia Post is required by the RAF to provide regulatory accounts disaggregated by the 16 defined service groups. Where applicable these accounts are reconciled to Australia Post's published annual report, including:

- statement of financial performance
- statement of capital employed
- statement of movement of non-current asset values
- statement of WACC
- service group usage statement.

The regulatory accounts must be independently audited to ensure Australia Post complies with the rules. Further, Australia Post must provide a regulatory accounting procedures manual (RAPM) providing detailed information on how the regulatory accounts were prepared. Importantly, the RAPM must include detailed account mapping of how items are:

- allocated to service groups
- reported as either direct, attributable or unattributable account items.

Direct account items

Direct account items are those account items that are solely associated with a particular service and so are incremental to providing that service.

Australia Post has few direct revenues for its mail services because it is difficult for revenue to be identified by product at the point of sale. For example, eight 50 cent postage stamps may be used to mail eight separate small letters or one small parcel. In contrast, non-mail revenues can be directly attributed to the source at the point of sale.

Australia Post has very few direct costs due to the nature of its operations. Its operational infrastructure supports a variety of products which, although differentiated by size, weight and handling characteristics, share common transport, processing and delivery costs. As a consequence, no costs within the reserved services are direct to a particular service group.

Attributable account items

Attributable account items are part of a pool of common account items that are identifiable to a particular service by a separable cause and effect relationship. Due to Australia Post having very few direct account items relating to its mail services, most of these revenues and costs are attributed to the various letter services according to an activity-based allocation methodology.

Unattributable account items

Unattributable account items are part of a pool of common account items but are not readily identifiable (in whole or part) to any particular service by a separable cause and effect relationship. For example, senior management and central support functions such as finance and corporate affairs are classified as unattributable items. Unattributable account items are allocated to particular service groups using a relevant, reliable and verifiable factor such as relative use.

Using accounting information to proxy economic cost concepts

The ACCC considered that Australia Post would incur significant compliance costs if it were required to keep financial records on the economic cost concepts of stand-alone and incremental costs. Such a requirement would entail devising new estimates of costs, revenues and assets on a different basis to that which Australia Post currently keeps its accounting records.[18]

Accordingly, the incremental and stand-alone costs applied in this report are based on accounting data and provide a proxy for what the true economic incremental or stand-alone costs may be.

Approximating incremental cost

As discussed above, the data provided by Australia Post under the RAF identifies costs (and revenues) as direct, attributable or unattributable. The purpose of this distinction is to derive an approximation of incremental cost.

Costs that are direct to a particular service group will be incremental to that service group as they are 'solely associated with a particular service group' and would therefore be avoided if that service group was no longer offered.

Costs that are attributable to a particular service group are incremental to the group of services over which they are attributed (if that group of services were no longer offered, the cost would be avoided) and may be incremental to a particular service group—the extent to which they are incremental to a particular service group depends on the extent to which Australia Post can avoid these costs by not providing that service group.

18 ACCC, *Regulation impact statement, Record keeping rules for establishing a regulatory accounting framework for Australia Post*, March 2005, p. 6.

Approximating stand-alone cost

In this case (as in most other cases where cross-subsidy is alleged), stand-alone costs are not observable. Karen Palmer has proposed substituting the actual stand-alone cost with an 'upper bound' on the stand-alone cost based on the lowest observed output of the second good.[19]

Although Palmer applies a cost function to observable data (rather than relying on accounting data reported as direct, attributable and unattributable), her approach does not seem dissimilar to the approach suggested by the ACCC's *Record keeping rules for the Telecommunications industry*:

> An upper boundary for the stand-alone cost of providing a service could be obtained by subtracting the direct and attributable costs associated with all other services from the total wholesale cost base. In practice, this boundary will usually be higher than actual stand alone cost …[20]

As noted in the above extract (and acknowledged by Palmer), it seems reasonable that the true stand-alone cost of a service (or group of services) lies between the sum of direct, attributable and unattributable (that is, the fully distributed) costs allocated to the particular service (or group of services) and the sum of direct and attributable costs for that service (or group of services) plus all of the company's unattributable costs.

This approach establishes fully distributed costs as a lower bound of stand-alone cost and fully distributed costs plus all other unattributable costs as an upper bound of stand-alone cost. However, this approach will only be valid if the direct costs and attributable costs are an accurate reflection of the incremental costs of the group of services concerned. Whether or not this is the case will depend on the particular circumstances and so some care is necessary in interpreting these 'lower' and 'upper' bounds.

In Australia Post's case, it appears likely that fully distributed cost may not be an accurate reflection of the lower bound of stand-alone cost in some cases. This is especially so for the reserved services, because of the large proportion of attributable and unattributable costs that are common to more than one 'letters' service group.

Australia Post has argued that many of the costs that are attributable between the reserved and non-reserved letter services would not significantly alter even if the non-reserved letter services were no longer offered. Australia Post argues that this is due to the costs being driven by its community service obligations and delivery standards which are specified by legislation, rather than mail volumes. For example, the labour cost associated with the delivery of letters is driven by the number of delivery points and the frequency of delivery rather than by the number of letters delivered. If the non-reserved letters services were no longer offered by Australia Post, this is unlikely to significantly reduce Australia Post's labour cost associated with delivery. Similarly, Australia Post has argued that transport costs for mail are largely driven by the need to meet service standards (rather than mail volumes) which are prescribed by the Australian Postal Corporation (Performance Standards) Regulations 1998.

Finally, it is noted that the reasonableness of the upper bound appears to increase as the number of service groups increases. That is, adding all of the unattributable costs to one individual service group is likely to significantly overestimate the stand-alone cost of providing that service; however, when adding all unattributable costs to a larger group of services, the quantum of the overestimation is likely to reduce.

19 Karen Palmer, 'Using an upper bound on stand-alone cost in tests of cross-subsidy', *Economic Letters*, 35, pp. 457–60; and, 'A test for cross-subsidies in local telephone rates: do business customers subsidize residential customers?', *RAND Journal of Economics*, 23(3), pp. 415–31.

20 ACCC, *Record Keeping Rules for the Telecommunications Industry*, December 1999, p. 47.

The tests applied in this report

The tests applied in this report use the accounting-based proxies for the economic cost concepts of incremental cost and stand-alone cost discussed above.

In conducting the tests described below, the ACCC derived a 'capital adjusted' statement of financial performance.[21] The ACCC has previously stated that it believes a return on capital is a legitimate cost to business.[22] Accordingly, in seeking to identify the existence of cross-subsidy, it is appropriate to identify and quantify this cost.

The ACCC has applied the tests for cross-subsidy on both a capital adjusted and non-capital adjusted basis and found that the results are robust whether or not this capital adjustment is made. That is, adding a return on capital as a cost does not change whether or not services pass or fail; it only changes the amount by which they pass or fail.

The cost figures presented in this report have not been adjusted to reflect a return on capital. This approach allows readers to reconcile the figures presented with Australia Post's annual report.

Incremental cost test

When revenue is less than direct costs, the service group is the recipient of a subsidy. When revenue is sufficient to cover the direct costs, but less than the sum of direct and attributable costs, the service group may be the recipient of a subsidy—further information about the attributable costs will be required. Whether the service is the recipient of a subsidy in such a case depends on the extent to which the costs attributable to the service are incremental to that service; that is, the extent to which they would be avoided if the service was no longer provided.

Stand-alone cost test

If the sum of direct and attributable costs is an accurate reflection of the incremental cost of each service group, then the sum of direct and attributable costs for the particular service (or group of services) plus all unattributable costs represents an upper bound for stand-alone cost.

If revenue is above this upper bound, that particular service (or group of services) is a potential source of subsidy. Whether or not it is an actual source of a subsidy depends on whether the revenue from another service (or group of services) is below the incremental cost of providing that service (or group of services). That is, finding that revenue is greater than stand-alone cost is not sufficient to identify a cross-subsidy; it may be that the firm is simply earning positive economic profit.

However, if the sum of direct and attributable costs is not an accurate reflection of the incremental cost of the service, an adjustment (such as that discussed under 'Approximating stand-alone cost' above) may be necessary to arrive at a reasonable estimate of stand-alone cost.

Fully distributed cost test

While the ACCC's analysis is primarily concerned with the economic cost concepts of incremental and stand-alone cost (as proxied by accounting data), fully distributed cost is also reported. Although not strictly relevant to determining the existence of cross-subsidy, fully distributed costs are compared with revenue to show whether each of the service groups is, in addition to meeting its incremental cost, meeting Australia Post's allocation of common costs.

The fully distributed cost test is a more stringent test than the incremental cost test because it requires revenue to be sufficient to recover the incremental cost (proxied by the sum of direct and attributable costs) of providing the service and Australia Post's allocation of common costs.

21 The weighted average cost of capital (WACC) is applied to the value of capital employed for each service group, and this cost of capital is added to the statement of financial performance to derive a 'capital adjusted' statement of financial performance for each of the 16 service groups.

22 ACCC, *Issues raised during consultation: record-keeping rules establishing a regulatory accounting framework for Australia Post*, p. 3. Available from www.accc.gov.au/content/index.phtml?itemId=672018.

4. Analysis of Australia Post's 2004–05 accounts

This section sets out the results of the ACCC's analysis of Australia Post's regulatory accounts.

Australia Post has used an activity-based costing system to allocate its account items (i.e. its revenues, costs and assets). Australia Post's cost allocations have been taken as given. The ACCC expects to examine, in more detail, over time the appropriateness of Australia Post's cost allocations.

As noted above, the test results outlined below were performed using capital adjusted costs; that is, Australia Post's accounting costs were adjusted to include a rate of return[23] on the capital employed for each service group. However, the results are robust whether or not this capital adjustment occurs (i.e. the capital adjustment only affects the amount of the pass/fail result).

Despite use of the capital adjusted costs in testing, the ACCC is not reporting the capital adjustment costs due to Australia Post's claim of confidentiality over the information contained in the statement of capital employed. Accordingly all costs in this report are on a non-capital adjusted basis and are reconcilable to Australia Post's annual report.

The statement of financial performance and test results for all 16 service groups is presented in table 1.

23 Australia Post estimates its weighted average cost of capital to be 9.7 per cent in its 2004–05 regulatory accounts. The ACCC has not assessed the reasonableness of this estimate, but notes the parameters are broadly consistent with those used in its 2002 assessment of Australia Post's price notification.

Table 1 Australia Post's revenues and costs by service group ($000's)

Service group	Revenue (R)	Direct cost (DC)	Attributable cost (AC)	Unattributable cost	Fully distributed cost (FDC)	R>DC?	R>(DC+AC)?	R>FDC?
<u>Reserved services</u>								
Small letters ordinary	✂	✂	✂	✂	✂	Yes	Yes	**No**
Small letters PreSort	✂	✂	✂	✂	✂	Yes	Yes	Yes
Large letters ordinary	✂	✂	✂	✂	✂	Yes	Yes	Yes
Large letters PreSort	✂	✂	✂	✂	✂	Yes	Yes	Yes
International inward	✂	✂	✂	✂	✂	Yes	**No**	**No**
Reserved services total	**1 849.5**	✂	✂	✂	**1 726.2**	**Yes**	**Yes**	**Yes**
<u>Non-reserved services</u>								
Large letters ordinary	✂	✂	✂	✂	✂	✂	✂	✂
Large letters PreSort	✂	✂	✂	✂	✂	✂	✂	✂
Other letter services	✂	✂	✂	✂	✂	✂	✂	✂
International out	✂	✂	✂	✂	✂	✂	✂	✂
International inwards	✂	✂	✂	✂	✂	✂	✂	✂
Parcels	✂	✂	✂	✂	✂	✂	✂	✂
Logistics	✂	✂	✂	✂	✂	✂	✂	✂
Retail	✂	✂	✂	✂	✂	✂	✂	✂
Financial services	✂	✂	✂	✂	✂	✂	✂	✂
Customised services	✂	✂	✂	✂	✂	✂	✂	✂
Non-reserved services total	**2 385.7**	✂	✂	✂	**2 012.2**	**Yes**	**Yes**	**Yes**
TOTAL	**4 235.2**	✂	✂	✂	**3 738.4**			

Did any service group receive a subsidy?

From table 1 it can be seen that revenue from four service groups (small letters ordinary; reserved international inward; [information removed]; and [information removed]) does not cover the fully distributed costs of providing them. Two of these (small letters ordinary and reserved international inward) are within the reserved services and so are of limited concern in the context of monitoring for cross-subsidy from the reserved services to the non-reserved services.

Revenue from [information removed] is less than both the direct plus attributable cost of providing that service and the direct cost of providing that service. Accordingly, it appears unequivocal that the [information removed] service was the recipient of a subsidy during 2004–05. [information removed]

Revenue from 'international inward' is less than direct plus attributable costs and so could be the recipient of a subsidy; however, as this service group falls within the bounds of the Australia Post's statutory monopoly, it does not raise concerns here. International mail is generally settled on a basis known as 'terminal dues' which is overseen by the Universal Postal Union and is not cost based. Generally, the receiving country receives less revenue than its actual cost of delivery. The corollary of the loss in 'international inward' is the capital-adjusted profit of $[information removed] in 'international out', which is not reserved.

Revenue from small letters ordinary and [information removed] is less than the fully distributed cost of providing these services but is greater than direct plus attributable costs. Therefore, these service groups are not considered to be recipients of a cross-subsidy.[24]

Is the source of the subsidy the reserved services?

Table 2 provides revenue and cost data for Australia Post's reserved services only.

Table 2 Australia Post's revenue and cost for reserved services ($m)

Service group	Total revenue	FDC	Surplus
Small letters ordinary	✂	✂	✂
Small letters PreSort	✂	✂	✂
Large letters ordinary	✂	✂	✂
Large letters PreSort	✂	✂	✂
International inward	✂	✂	✂
Total reserved	**1 849.5**	**1 726.2**	**123.3**

Revenue is greater than the fully distributed cost of providing the reserved services, and therefore is a potential source of subsidy if the fully distributed cost of the reserved services is a fair approximation of the stand-alone cost of providing the reserved services. It seems reasonable, however, that the fully distributed cost underestimates the cost of providing the reserved services and that it is necessary to add back some of the unattributable costs that have been allocated to the non-reserved services. However, identifying the appropriate amount to be added back is problematic.

As discussed in section 3, one approach is to establish an upper bound on the stand-alone cost. This could be done by adding back the common (unattributable) costs that have been allocated to the non-reserved services to the cost of the reserved services. In this case, the total unattributable costs allocated to non-reserved services have been added back to the cost of the reserved services.

24 [information removed]

Table 3 adds all of the unattributable costs from non-reserved services back to the reserved services.

Table 3 Australia Post's reserved services with all unattributable costs ($m)

Service group	Total revenue	FDC	Surplus
Total reserved	**1 849.5**	**1 726.2**	**123.3**
Non-reserved unattributable cost adjustment		✂	
Adjusted total	**1 849.5**	✂	Negative

Revenue from the reserved services is not sufficient to cover this upper bound of stand-alone cost, and accordingly, the reserved services cannot be considered the source of a cross-subsidy if this upper bound is a reasonable approximation of the true stand-alone cost of providing the reserved services. Adding back even a conservative amount of the unattributable cost would still result in revenue being less than the estimate of stand-alone cost. For example, adding back $[information removed] (17 per cent) of Australia Post's unattributable cost that was allocated to the non-reserved services would result in revenue being less than the stand-alone cost estimate.

In addition, as discussed in section 3, it appears necessary to also add back some of the costs attributed to the non-reserved letter services as they would be incurred even if the non-reserved letters services were not offered. For example, Australia Post estimates that $[information removed] of its delivery and transport costs would need to be added to the fully distributed cost of the reserved services if non-reserved services were no longer offered. Adding back $[information removed] (31 per cent) of this cost, even without any of the unattributable costs, would mean that revenue from the reserved services would be less than the estimate of stand-alone cost.

Accordingly, the ACCC is satisfied that the reserved services are not a source of subsidy. This result is not entirely unexpected, because the reserved services are subject to the price notification provisions of Part VIIA of the Trade Practices Act. Declaration of Australia Post's reserved services under Part VIIA is intended to inhibit Australia Post's ability to exercise its market power in the reserved services, and so serves to limit its ability to make economic (or excess) profit from the reserved services. When assessing price notifications, the ACCC does not allow Australia Post to recover the stand-alone cost of the reserved service; rather, it takes a 'dual till' approach[25] which allows the recovery of the costs that are 'attributable to the reserved services, plus an allowance for joint costs'.[26]

Widening the scope of the tests

As the reserved services do not appear to be the source of subsidy, the ACCC has also applied the upper bound of stand-alone cost test to other groups of services to identify possible sources of subsidy.

Table 4 widens the scope of services that are to be tested against the upper bound of stand-alone costs to all letter services. It seems reasonable that Australia Post may have some degree of market power in this group of services due to its ubiquitous collection and distribution networks, despite the fact that it does not have a legislated monopoly over the non-reserved services.

25 ACCC, *Preliminary view: Australian Postal Corporation pricing proposal*, September 2002, p. 50.

26 ibid., p. 49.

Table 4 Australia Post's letter services with all unattributable costs ($m)

Service group	Total revenue	Total cost	Surplus
Reserved services			
Small letters ordinary	✂	✂	✂
Small letters PreSort	✂	✂	✂
Large letters ordinary	✂	✂	✂
Large letters PreSort	✂	✂	✂
International letters (inward)	✂	✂	✂
Non-reserved services			
Large letters ordinary	✂	✂	✂
Large letters Presort	✂	✂	✂
Other letter services	✂	✂	✂
International out	✂	✂	✂
International in (non-reserved)	✂	✂	✂
TOTAL	✂	✂	✂
'Non letters' unattributable cost adjustment		✂	
Adjusted total	✂	✂	Negative

Revenue from this group of services is not sufficient to cover this upper bound of stand-alone cost, and accordingly, all 'Australia Post's letter services' is not considered the source of a cross-subsidy.

It should be noted that if Australia Post's parcels service is included within 'letter services', then all the 'mail services' becomes a possible source of subsidy with revenues from this group exceeding the upper bound of stand-alone cost.

Table 5 changes the scope of services that are to be tested against the upper bound of stand-alone costs to 'all non-reserved services'.

Table 5 Australia Post's non-reserved services with all unattributable costs ($m)

Service group	Total revenue	Total cost	Surplus
Non-reserved services			
Large letters ordinary	✂	✂	✂
Large letters PreSort	✂	✂	✂
Other letter services	✂	✂	✂
Parcels	✂	✂	✂
International out	✂	✂	✂
International in (non-reserved)	✂	✂	✂
Logistics	✂	✂	✂
Retail	✂	✂	✂
Financial services	✂	✂	✂
Customised services	✂	✂	✂
TOTAL NON-RESERVED	**2 385.7**	**2 012.2**	**373.3**
All reserved unattributable cost adjustment		✂	
ADJUSTED TOTAL	**2 385.7**	✂	Positive

Revenue from non-reserved services is greater than this upper bound of stand-alone cost. Accordingly these services are a potential source of a cross-subsidy. Further, removing [information removed] (which is the recipient of the subsidy) from the non-reserved services increases the quantum of the potential subsidy.

5. Conclusion

Australia Post's regulatory accounts for 2004–05 do not provide evidence of cross-subsidy from Australia Post's reserved services to the non-reserved services. While the revenue from the reserved services is greater than the fully distributed cost of providing them (by $[information removed]), the fully distributed cost does not appear to be a reasonable estimate of stand-alone cost. To obtain a reasonable estimate of stand-alone cost, it is necessary to add back costs that have been allocated to the non-reserved services but that would still be incurred if the non-reserved services were not offered.

The ACCC is satisfied that adding back even a conservative estimate of these costs would result in revenue being less than the stand-alone cost of the reserved services. This means that the reserved services are not a source of subsidy.

Revenue from Australia Post's non-reserved services, however, appears to be greater than the upper bound of stand-alone cost of providing the non-reserved services, even when taking a conservative approach. This means that the non-reserved services (as a whole) do not receive a subsidy; rather they appear to be a possible source of subsidy.

One non-reserved service group appears to have received a subsidy in 2004–05. Revenue from [information removed] is less than the direct cost of providing that service by $[information removed]. However, as noted above, the source of subsidy appears to be the other non-reserved services, not the reserved services.

While [information removed] appears to have received a subsidy in 2004–05, the ACCC's role is to monitor if Australia Post's reserved services are subsidising the non-reserved services and the analysis in this report indicates that this is not happening.

Appendix—RAF information not claimed as confidential

Schedule 1 Service group definitions

Schedule 1(a) Reserved service group descriptions

Service group	Product/service	Description
Small letters ordinary	S L—ordinary—stamped	Small letters include enveloped mail, letter-sheets, pre-stamped envelopes and unenclosed postcards no larger than 130 mm x 240 mm, no thicker than 5 mm and no heavier than 250 grams.
	S L—clean	Reduced charges for customers who present quantities of correctly machine-addressed small letters.
	S L—ordinary—other	Ordinary small letters, where postage has not been paid via a postage stamp (includes payment via charge account and postage meters).
	S L—reply paid	Small letters within the above definition where the addressee has supplied a 'reply paid' envelope i.e. the addressee is 'paying' the postage. Revenue includes the additional 'fee' for the service.
	S L—impact mail	Irregular shaped mail—small
Small letters PreSort	S L—local rate	Reduced charges for customers who reside or carry on business in any postcode area serviced by the delivery office and who lodge small letters. Only found in country areas.
	S L—regular PreSort	Reduced charges for small letter displaying a delivery point indicator within a four state barcode when presented by the customer in accordance with relevant mailing conditions. Normal delivery standards apply.
	S L—regular charity mail	PreSort small letters from organisations that are endorsed as income tax exempt charitable institutions and trust funds for charitable purposes, by the ATO. Normal delivery standards apply.
	S L—off peak PreSort	Reduced charges for small letter displaying a delivery point indicator within a four state barcode when presented by the customer in accordance with relevant mailing conditions. Delivery standard up to three days longer than 'regular'.
	S L—off peak charity mail	PreSort small letters from organisations that are endorsed as income tax exempt charitable institutions and trust funds for charitable purposes, by the ATO. Delivery standards up to three days longer than 'regular'.

Large letters ordinary	L L—ordinary—stamped	Large letters include enveloped mail, pre-stamped envelopes and unenclosed postcards that are rectangular in shape, no larger than 260 mm x 360 mm, no thicker than 20 mm, no heavier than 250 grams, not a small letter and postage does not exceed $2.
	L L—ordinary—other	Ordinary large letters, where postage has not been paid via a postage stamp (includes payment via charge account and postage meters).
	L L—clean	Reduced charges for customers who present quantities of correctly machine-addressed large letters.
	L L—reply paid	Large letters within the above definition where the addressee has supplied a 'reply paid' envelope i.e. the addressee is 'paying' the postage. Revenue includes the additional 'fee' for the service.
	L L—impact mail	Irregular shaped mail—small plus
Large letters PreSort	L L—local rate	Reduced charges for customers who reside or carry on business in any postcode area serviced by the delivery office and who lodge large letters. Only found in country areas.
	L L—regular—PreSort	Reduced charges for large letter size items under 250 grams displaying a delivery point indicator within a four state barcode when presented by the customer in accordance with relevant mailing conditions. Normal delivery standards apply.
	L L—off peak PreSort	Reduced charges for large letter size items under 250 grams displaying a delivery point indicator within a four state barcode when presented by the customer in accordance with relevant mailing conditions. Delivery standard up to three days longer than 'regular'.
International inward	international letters	The carriage and delivery within Australia of incoming international letter mail which meets the scope of the reserved service.

Schedule 1(b) Non-reserved service group descriptions

Service group	Product/service description	Description
Non-reserved large letters ordinary	L L—ordinary	Large letters include enveloped mail, pre-stamped envelopes and unenclosed postcards that are rectangular in shape, no larger than 260 mm x 360 mm, no thicker than 20 mm, no heavier than 500 grams, not a small letter and postage is at least $2.
Non-reserved large letters PreSort	L L—regular PreSort	Reduced charges to customers who sort their large letters in excess of 250 grams before lodgment and comply with relevant mailing conditions. Normal delivery standards apply.
	L L—off peak PreSort	Reduced charges for customers who sort their large letters in excess of 250 grams before lodgment, and comply with relevant mailing conditions. Delayed delivery standards apply.
Other non-reserved letter mail services	unaddressed mail	The unaddressed delivery service is the distribution of such items as catalogues, merchandising samples and leaflets to all letterboxes in a certain area.
	periodical publications	Reduced charges for customers who lodge authorised publications and catalogues that are no larger than 260 x 360 x 20 mm and up to 1kg for delivery within Australia.
	registered post fees	Additional fees for service include optional prepaid envelopes or registered post labels or imprints. Also entails insurance cover up to $100.
	reply paid fees	The additional fees above normal postage
Parcels	parcels	All other domestic mail items which do not meet the criteria for letters including items mailed under the 'express' banner.
International mail (outward)	outward international mail services	All mail items lodged in Australia for delivery to overseas addressees.
Non-reserved international inward	non-reserved inward international mail services	The carriage and delivery within Australia of incoming international mail that is outside the scope of the reserved service.
Logistics	logistics and fulfilment services	Provision of storage facilities, receipt of orders, picking, packing and despatching of products for both domestic and international customers.
	online delivery	The provision of specialised delivery operations requiring dedicated, specialised vehicles.
	other fulfilment services	Miscellaneous logistics services
Retail	philatelic	The sale of stamps, related product and coins to the collector market.
	Postpak	The sale of postal packaging and related items

	complimentary products	The sale of stationery, cards, communications and other products through retail outlets.
Financial services	transaction services	The provision of financial transactions facilities including money orders, banking services (both personal and business) and the undertaking of passport interviews.
	other agency	The provision of bill payment and related services.
Customised services	messenger post	The provision of 'courier' type operations.
	forces mail	Mail and parcel services to deployed military units.
	mail rooms	The running of customers' internal mail rooms.
	fax post	The acceptance and/or delivery of fax messages to customers without a private fax facility.
	EDIPOST—mail	The production of hard copy documents for mailing to addressees from computer-generated data. Covers production costs only i.e. excludes postage which is included in relevant areas above.
	private boxes and bags	The provision by post of numbered boxes and private mail bags which act as delivery points for customers 'renting' the boxes/bags.
	address post	The provision of 'change of address' data to customers wishing to update their mailing lists.
	redirection fees	The provision of mail redirection service (both short term 'hold' and permanent on-forwarding) for both private individuals and businesses.
	other miscellaneous	Other minor items from which revenue is earned.

Schedule 3 List of account items for revenues

Account code	Account item	Description
3-1	mail revenue	All revenue earned from the carriage of mail items (including letters and parcels) including through sale of postage stamps, postage labels, bulk postage and franking machines. (Note: individual categories of reserved and non-reserved mail will be separated through the split of service items).
3-2	licence fees	All revenue earned from licence fees not included in other revenue categories.
3-3	transaction fees	All revenue earned from transaction fees not included in other revenue categories.
3-4	retail sales	All revenue earned from retail sales not included in other revenue categories.
3-5	property rents	All revenue earned from property leasing not included in other revenue categories.
3-6	other	All other revenue earned not included above.

Schedule 4 List of account items for cost

Account code	Account item	Description
4-1	labour (including contract services)	All costs associated with the employment of staff, including wages and salaries, payroll tax, leave and other entitlements, separation and redundancy and workers' compensation. Includes contract staff utilised in post administered operational areas.
4-2	motor vehicle operating	Costs (excluding depreciation) for the operation of motor vehicles including their maintenance and upgrade.
4-3	accommodation	Costs (excluding depreciation) for accommodation and property including their maintenance, upgrade and the supply of basic services (i.e. power, water).
4-4	depreciation and amortisation	A periodic allocation of the historical cost of plant and equipment over the useful life of the asset. Includes a periodic allocation of the value of intangible assets.
4-5	licensees	All payments made to licensed post offices, including post points located in non-post retail outlets.
4-6	carriage of mail	Payments made to non-post employees for the carriage and/or delivery of mail.
4-7	cost of goods sold	Cost of purchases for retail merchandise, philatelic product and Sprintpak.
4–8	international mail settlements	Payments made to overseas postal administrations for the transport, processing and delivery of international mail originating in Australia.
4–9	general administration	General corporate type costs not already included, including corporate centre, legal, regulatory, accounting and finance, human resources and personnel, and non-product specific research and development. Will include costs from Account Items 4–1, 4–2, 4–3 and 4–4.
4–10	other	All costs not already included.

Schedule 6 List of account items for asset values

Account code	Account item	Description
6-2-1	land and buildings	
6-2-1-1	land	All land (including freehold and perpetually renewable leasehold land) owned by Australia Post. Includes land improvements but excludes buildings or other limited-life structures.
6-2-1-2	buildings	All buildings including those under construction, owned by the company and the associated building alterations.
6-2-1-3	fit-out	All extensions, structural attachments, improvements; and building plant and equipment such as electric light and power equipment, lifts and air-conditioning which are considered an integral part of the building. Included are improvements on leased buildings.
6-2-2	plant and equipment	
6-2-2-1	motor vehicles	All motor vehicle and related equipment.
6-2-2-2	mail-handling plant	All equipment related to the sorting of mail and/or parcels.
6-2-2-3	other plant and equipment	All plant and equipment not already included.
6-2-2-4	office equipment	All office and related equipment.
6-2-2-5	counter equipment/EPOS	All equipment related to the servicing of customers in retail outlets, including the provision of electronic point-of-sale facilities.
6-2-3	other	
6–2–3–1	Software	Computer software.
6–2–3–2	Intangibles	Identifiable assets having no physical existence, their value being limited by the rights and anticipative benefits that possession confers upon the owner, such as goodwill, trade marks, copyrights, patents, licenses and other assets of a similar nature.
6–2–4	Assets under Construction	
6–2–4–1	Assets under Construction	Value of assets under construction.

Schedule 7 Movements in valuation of non-current assets

RESERVED	Closing Lyr	Acquisition	Retire	Transfer	Revalue	Depreciation	Closing
Land	240.2	3.5	–5.4	32.3	33.5	–0.0	304.0
Buildings	290.1	5.5	–4.4	–34.3	25.3	–15.5	266.8
Fit-out	17.6	1.8	–0.0	–0.1	-	–5.9	13.4
Motor vehicles	66.5	12.0	–5.1	6.8	-	–15.3	65.0
Mail-handling plant	277.5	2.9	–0.2	–7.2	-	–29.2	243.8
Other plant and equipment	27.4	19.3	–0.1	–13.4	-	–12.7	20.6
Office equipment	10.7	0.8	–0.0	0.2	-	–1.7	10.0
Counter equipment/EPOS	0.6	0.0	–0.0	0.0	-	–0.3	0.4
Software	21.9	4.2	-	3.1	-	–13.2	16.1
Intangibles	–-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Assets under construction	18.2	20.4	-	-12.4	-	-	26.3
TOTAL RESERVED	**970.8**	**70.5**	**–15.1**	**–25.0**	**58.8**	**–93.7**	**966.5**

NON-RESERVED	Closing Lyr	Acquisition	Retire	Transfer	Revalue	Depreciation	Closing
Land	258.5	3.7	–5.8	35.3	35.8	–0.0	327.5
Buildings	301.0	7.3	–4.6	–28.5	27.1	–15.4	287.0
Fit-out	16.9	5.0	–0.0	4.2	-	–8.6	17.5
Motor vehicles	46.2	7.9	–3.4	1.1	-	–8.8	42.9
Mail-handling plant	82.8	1.4	–0.1	24.1	-	–10.6	97.6
Other plant and equipment	51.8	28.0	–1.3	–4.8	-	–22.1	51.6
Office equipment	13.9	0.9	–0.0	0.2	-	–2.0	13.1
Counter equipment/EPOS	1.3	0.0	–0.0	–0.1	-	–0.6	0.7
Software	41.2	9.9	–0.3	2.7	-	–22.0	31.5
Intangibles	1.9	-	-	-	-	–0.4	1.5
Other	-	52.3	-	-	-	–0.8	51.5
Assets under construction	19.1	34.4	-	-9.2	-	-	44.3
TOTAL NON-RESERVED	**834.7**	**150.9**	**–15.7**	**25.1**	**62.8**	**–91.2**	**966.6**
TOTAL FIXED ASSETS	**1805.6**	**221.5**	**–30.7**	**0.0**	**121.6**	**–184.9**	**1 933.1**

Note 1: Non-reserved includes unallocated.

Note 2: Assets under construction have been included as a separate account item.

Note 3: Closing Lyr corresponds to the previous year on the segment note in the 2004–05 annual report.

Note 4: The opening balance for motor vehicles includes an adjustment of $2.9 million with the offset in other plant and equipment.

Schedule 9 Statement of service group usage

Service group	Volume (m)	Description
Total—ordinary small letters	1913.437	Total posted ordinary small letters.
Total—PreSort small letters	1873.842	Total posted PreSort small letters.
Total—ordinary large letters	228.623	Total posted reserved and non-reserved ordinary large letters.
Total—PreSort large letters	164.246	Total posted reserved and non-reserved PreSort large letters.