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Commission

Assessing cross-subsidy in Australia Post 2008–09

An ACCC report

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Australian Competition and Consumer Commission
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Glossary

ACCC	Australian Competition and Consumer Commission
AIFRS	Australian equivalents to International Financial Reporting Standards
APCA	*Australian Postal Corporation Act 1989*
attributable cost	costs that are part of a pool of common costs identifiable to a particular service by a separable cause-and-effect relationship
Australia Post	Australian Postal Corporation
cross-subsidy	the supply of one group of services at a loss made up by the profits on the supply of (an)other group(s) of services
direct cost	costs that are solely associated with a particular service and so are incremental to providing that service
fully distributed cost	the sum of direct, attributable and unattributable costs allocated to the particular service or group of services
incremental cost	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
RAF	regulatory accounting framework
record-keeping rule (RKR)	a requirement by the ACCC that Australia Post keep certain records that relate to any of the ACCC's regulatory roles
regulatory accounts	the statement of financial performance, statement of capital employed, statement of movements in non-current asset values, statement of WACC and statement of service group usage required by the RKRs to be provided by Australia Post to the ACCC
reserved services	postal services reserved to Australia Post under legislation (i.e. no other entity can provide these services)
service group	the service groups defined in Schedule 1 of the RKR information provided by Australia Post
stand-alone cost	the cost of producing each output in isolation
unattributable cost	a cost that is part of a pool of common costs but is 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's) analysis of Australia Post's regulatory accounts for the 2008–09 financial year to determine whether it cross-subsidised its non-reserved services with revenue from its reserved services. Reserved services are those services in which Australia Post has a statutory monopoly; non-reserved services are services it provides in competition with other businesses.

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* (APCA) was amended to allow the ACCC to issue record-keeping rules (RKRs) relevant to its regulatory functions. These amendments also placed an obligation on the ACCC to issue an 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 ACCC issues reports on its assessment of cross-subsidy in Australia Post on an annual basis.

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 incurred in providing another service. However, a more formal definition of cross-subsidy has developed in economic literature. It 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 such a service is an actual source of subsidy depends on whether 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 cost and stand-alone cost.

Information that Australia Post considers confidential is not generally disclosed in this report. Such exclusions are indicated by '✂'.

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

Key findings

The key findings of the ACCC's analysis are:

- The ACCC is satisfied that Australia Post's reserved services were not a source of subsidy for its non-reserved services. The revenue earned by each of the reserved services and the revenue earned by all the reserved services in total was less than the relevant stand-alone cost proxy.
- In particular, revenue from small ordinary letter services (a reserved service) was not sufficient to recover the fully distributed costs of providing the service in 2008–09. This has been the case in each year for which the ACCC has monitored cross-subsidy (since 2004–05). The recovery of costs attributed to small ordinary letter services has been deteriorating since 2004–05, and this service may receive a subsidy in the future if trends continue.
- Revenue from Australia Post's non-reserved services (as a whole) was greater than the lower and upper bound estimates of the stand-alone cost of providing the non-reserved services. The ACCC is therefore satisfied that the non-reserved services (as a whole) did not receive a subsidy; rather, they appear to be a possible source of subsidy.
- Individually, logistics services (a non-reserved service group) received a subsidy in 2008–09 from other non-reserved services. Logistics services has been the recipient of a subsidy in each year for which the ACCC has monitored cross-subsidy (since 2004–05). The subsidy to logistics services from the other non-reserved services increased substantially in 2008–09.
- Three other service groups may also have received a subsidy from the (other) non-reserved services in 2008–09—reserved international inward letters, non-reserved international inward letters, and a category described by Australia Post as 'other services' (non-reserved). Revenue from these service groups was not sufficient to fully recover the costs attributed to providing those services.

1. Introduction

As well as administering the *Trade Practices Act 1974*, the ACCC has specific responsibilities in the regulation of postal services.

These responsibilities include 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 and inquiring into certain disputes regarding the terms and conditions under which Australia Post supplies bulk mail services.

To assist it in undertaking these roles, the ACCC can issue RKRs to Australia Post that require Australia Post to keep specified records and provide them to the ACCC.

The RKR provisions place an obligation on the ACCC to issue Australia Post with RKRs—the purpose being 'to enable the ACCC to scrutinise whether Australia Post is cross-subsidising from the reserved services to the services it provides in competition with others'.[2] This requirement was introduced to address allegations raised by some of Australia Post's competitors that it was competing unfairly by using revenue from its reserved services to cross-subsidise services it provides in competition with other businesses.[3]

In March 2005 the ACCC issued an 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.

The remainder of this report is structured as follows:

- Chapter 2 provides an overview of the ACCC's roles in the regulation of postal services.
- Chapter 3 outlines the ACCC's framework for monitoring for cross-subsidy.
- Chapter 4 outlines Australia Post's cost allocation methods and accounting policies.
- Chapter 5 sets out the results of the ACCC's cross-subsidy analysis for 2008–09.
- Chapter 6 presents the ACCC's conclusions.

2 Explanatory memorandum to the Postal Services Legislation Amendment Bill 2003, p. 40.

3 Explanatory memorandum to the Postal Services Legislation Amendment Bill 2003, p. 39.

2. Background

This chapter provides an overview of Australia Post's obligations in providing postal services and the ACCC's role in the regulation of postal services.

Australia Post's functions and obligations

Australia Post is the government-owned provider of postal services in Australia. In 2008–09 it delivered 5.3 billion items of mail to 10.7 million Australian addresses, had 35 509 employees and 4433 post offices, and served around a million customers in its retail outlets each business day. It reported a post-tax net profit of $260.6 million (an operating profit before tax of $380.9 million), representing a return of 12.2 per cent on average operating assets and a return of 7.6 per cent on revenue.[4]

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

The APCA 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.[5]
- Australia Post is required to meet certain community service obligations (outlined below).[6]
- Australia Post must perform its functions in a way consistent with general government policy and any directions given by the minister.[7]

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

For letters that are standard postal articles, Australia Post must make the letter service available at a single uniform rate of postage for carriage within Australia by ordinary post. 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 originate within or outside Australia.[8] In this context, the term 'letters' has a meaning that is wider than its general usage; the APCA defines 'letter' as meaning any form of written communication that is directed to a particular person or a particular address.[9]

The services captured by this monopoly are generally referred to as 'reserved services'. They 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.

4 Australia Post, *Annual report 2008–09*, pp. 11, 23, 39, 128.
5 Section 26 of the APCA.
6 Section 27 of the APCA.
7 Section 28 of the APCA.
8 Explanatory memorandum to the Australian Postal Corporation Bill 1989, p. 3.
9 Section 3 of the APCA.

As noted above, the reserved services are subject to a number of exceptions, which are detailed in section 30 of the APCA. These include:

- the carriage of a letter weighing more than 250 g
- 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.

ACCC role 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 APCA. They can be summarised as:

- monitoring 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.

To assist it in undertaking these roles, the ACCC can issue RKRs to Australia Post that require Australia Post to keep specified records and provide them to the ACCC.

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 APCA was amended by the *Postal Services Legislation Amendment Act 2004* to provide the ACCC with RKR powers. While these powers were mainly introduced to address concerns about cross-subsidisation, they also allow the ACCC to require Australia Post to keep records relating to any of its regulatory roles.[10]

To date, only one RKR has been issued to Australia Post—in March 2005. In accordance with this RKR, Australia Post has submitted regulatory accounts to the ACCC for each financial year starting from 2004–05.

The ACCC may prepare and publish reports—or may be directed by the minister to prepare and publish reports—analysing information provided to it under the RKRs.[11] Such reports may include information that Australia Post claims is commercial-in-confidence if:

- the ACCC is not satisfied that the claim is justified, or
- the ACCC considers it in the public interest to publish the information.[12]

The principles applied by the ACCC when considering whether to publicly disclose information that Australia Post claims is confidential are outlined in the ACCC publication *Principles for the public disclosure of record-keeping rule information provided by Australia Post*, which is available from the ACCC website.

10 Section 50H of the APCA.

11 Sections 50I and 50J of the APCA.

12 Section 50K of the APCA.

3. Framework for monitoring for cross-subsidy

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 incurred in providing another service. However, the formal definition of cross-subsidy comprises two tests:

- A service (or combination of services) is a potential source of subsidy if the revenue generated by that service (or combination of services) is greater than the stand-alone cost of the service. Whether such a service is an actual source of subsidy depends on whether the second test is satisfied. That is, revenue greater than stand-alone cost is not, of itself, evidence of a cross-subsidy—the firm may simply be making economic (or excess) profit.
- A service (or combination of services) is the recipient of a subsidy if the revenue generated by that service (or combination of services) is not sufficient to cover the incremental cost of providing it.

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 were no longer offered. If the revenue from each service is at least as great as the incremental cost of that service, no cross-subsidy exists.

If a service is the recipient of a subsidy, identifying the source of subsidy requires identifying which service (if any) has revenues 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.

There may be more than one source of subsidy. For example, if reserved revenue is greater than the stand-alone cost of the reserved services and non-reserved revenue is greater than the stand-alone cost of the non-reserved services, both the reserved and non-reserved services are possible sources of subsidy. Where there are multiple 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, 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.

In monitoring for the presence of cross-subsidies from the monopoly reserved services to the competitive non-reserved services, the ACCC seeks 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.

The ACCC considers 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 uses to keep its accounting records.[13]

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.

Accounting data used in testing

Australia Post is required by the RAF to provide revenue and cost information (regulatory accounts) disaggregated by 19 defined service groups and reported as direct, attributable or unattributable account items.

Direct account items are account items that are solely associated with a particular service and will be incremental to providing that service. 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 the nature of Australia Post’s operations, it has very few direct account items relating to its mail services. As a result, most of these revenues and costs are attributed to the various letter services according to an activity-based allocation methodology.

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

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, costs associated with 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.

Incremental cost test

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 were no longer offered.

A cost that is attributable to a number of service groups is incremental to that combination of service groups (if that combination of service groups were no longer offered, the cost would be avoided) and may be incremental to a particular individual service group in that combination—the extent to which it is incremental to a particular individual service group depends on the extent to which Australia Post can avoid these costs by not providing that service group.

It follows that where revenue is less than direct costs, the service group is the recipient of a subsidy. Where 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. Whether the service is actually 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 were no longer provided.

Stand-alone cost test

The stand-alone cost of a service (or group of services) typically lies between the sum of direct, attributable and unattributable costs (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 unattributable costs allocated to other services as an upper bound of stand-alone cost for any given service or group of services. 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 this is the case will depend on the particular circumstances, 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 underestimate stand-alone cost in some cases. This is especially so for the reserved services, because of the large proportion of attributable and unattributable costs common to more than one 'letters' service group. 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 would be unlikely to significantly reduce Australia Post's labour cost associated with delivery.

Also, the reasonableness of the upper bound appears to increase as the number of service groups included in the test increases. That is, adding all 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 amount of the overestimation is likely to reduce.

If revenue is above the upper bound of stand-alone cost, that particular service (or group of services) is a potential source of subsidy. Whether it is an actual source of 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.

Fully distributed cost test

While the ACCC's analysis is primarily concerned with the economic cost concepts of incremental and stand-alone costs (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 estimated incremental cost, also meeting Australia Post's allocation of common costs.

The fully distributed cost test is more stringent than the incremental cost test described above, 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 (unattributable) costs.

Fully distributed cost can also be considered a lower bound for stand-alone cost.

Accounting for a return on capital

The ACCC has previously stated that it believes a return on capital is a legitimate cost to business[14]. Accordingly, in seeking to identify the existence of cross-subsidy, it is appropriate to identify and quantify this cost. The appropriate return on capital[15] is added to the costs in Australia Post's statement of financial performance to derive a capital-adjusted statement of financial performance.

The ACCC has found that the results of its cross subsidy tests are generally robust whether capital adjustment is made or not. That is, adding a return on capital as a cost does not generally change whether services pass or fail; it only changes the amount by which they pass or fail.

Results of cross-subsidy tests presented in this report are results of tests performed using a capital-adjusted statement of financial performance. However, the specific cost figures presented are derived from Australia Post's non-capital-adjusted statement of financial performance (that is, they do not include a return on capital). This approach allows readers to reconcile the figures presented with Australia Post's annual report, and recognises Australia Post's claim of confidentiality over the capital employed figures.

Monitoring cross-subsidy over time

The RKR requires Australia Post to keep records and provide them to the ACCC on an annual basis; however, this 'static' reporting ignores the fact that costs incurred in one period might be recovered from revenue earned in another period. That is, while the ACCC's analysis is based on annual accounting records, and can show that a particular service received a subsidy in any given period, such a service may not receive a subsidy over time, and a long-run consideration is required.

14 ACCC, *Issues raised during consultation: Record-keeping rules establishing a regulatory accounting framework for Australia Post*, March 2005 (published on the ACCC website), p. 3.

15 The 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 19 service groups.

4. Accounting policies and cost allocation

The method of allocating costs to service groups will affect the results of any cross-subsidy assessment, while accounting policies will impact on how any cross-subsidy may be reported. Currently, Australia Post's 2008–09 regulatory accounts have been prepared based on financial data consistent with Australian Equivalents to International Financial Accounting Standards (AIFRS),[16] and Australia Post allocates revenues, costs, and assets between service groups using its activity-based allocation model.

Cost allocation

In its assessment of Australia Post's 2008 price notification, the ACCC engaged WIK Consult to assess Australia Post's cost allocation methodology. In its report, WIK Consult expressed some concerns about Australia Post's methodology. In light of these concerns, the ACCC decided that Australia Post's cost allocation methodology required a comprehensive review before Australia Post provided the ACCC with any further price notifications.

The ACCC commenced its review of Australia Post's cost allocation methodology in late 2008 after its assessment of the 2008 price notification, and completed the review in June 2009. The objective of the cost allocation review was to improve the transparency of Australia Post's methodology. The ACCC considered three assessment principles:

- ensuring there is sufficient information on and explanation of Australia Post's methodology at each stage of allocation—this way the ACCC can 'replicate' the results of Australia Post's methodology
- assessing whether the allocation procedures are consistent over time
- assessing whether the methodology is internally consistent—that is, there is consistency between Australia Post's descriptions of the allocation process and its allocation methodology, and consistency and traceability of cost allocation to different products.

As a result of the ACCC's review, Australia Post's cost allocation method is more transparently reported in its regulatory accounts, and Australia Post has addressed a number of the concerns about the application of its activity-based cost allocation methodology. In its July 2009 report assessing cross-subsidy in Australia Post for 2007–08, the ACCC noted that it was now satisfied with Australia Post's method of activity-based cost allocation.[17]

In assessing Australia Post's 2010 price notification, the ACCC stated that an environment of declining demand for letter services raises more fundamental questions as to the appropriate approach to the pricing of Australia Post's reserved services, and expressed concern about maintaining—for the purposes of pricing reserved services—a pure activity-based cost allocation methodology in such an environment.[18] The ACCC considered that, should volumes continue to decline at rates commensurate with those forecast by Australia Post, then the approach to determining the appropriate contribution to shared costs by reserved services would need to be examined prior to any further price notifications by Australia Post.[19] This may have an impact on future ACCC cross-subsidy assessments.

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16 Australia Post, *Annual report 2008–09*, p. 60. Companies and entities that prepare financial reports under the *Corporations Act 2001* have been required to comply with AIFRS for financial years commencing on or after 1 January 2005.

17 ACCC, *Assessing cross-subsidy in Australia Post 2007–08*, July 2009, p. 9.

18 ACCC, final decision, Australian Postal Corporation 2010 price notification, May 2010, p. 4.

19 ACCC, final decision, Australian Postal Corporation 2010 price notification, May 2010, p. 4.

Changes to accounting policy

As required under the RKRs, Australia Post has provided the ACCC with details of material changes to the accounting policies it implemented between the submission of the 2007–08 regulatory accounts and the 2008–09 regulatory accounts.

Australia Post has changed the allocation of its Local Rate Letter service to better reflect the lodgement characteristics and processing requirements of this service. The products relating to Small Letter Local Rate and Large Letter Local Rate are now included in the Small Letter Ordinary and Large Letter Ordinary service groups respectively. These were previously included in their respective PreSort Letter service groups. Australia Post has also changed the treatment of assets under construction, which are shown as unallocated in schedules 5 and 7 of the 2008–09 regulatory accounts.

Australia Post also identified a minor misallocation in its 2007–08 regulatory accounts due to an intangible asset being incorrectly classified as direct rather than attributable. This has been corrected in its 2008–09 regulatory accounts. This misallocation does not materially alter any of the cross-subsidy results for previous years.

5. Analysis of Australia Post's 2008–09 accounts

This chapter sets out the results of the ACCC analysis of Australia Post's regulatory accounts for 2008–09.

As noted in chapter 3, 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[20] on the capital employed for each service group. However, the results are generally robust whether or not this capital adjustment occurs (i.e. the capital adjustment only affects the size of the pass/fail result).[21]

Despite use of the capital-adjusted costs in testing, the ACCC is not reporting the capital-adjusted 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 reported on a non-capital-adjusted basis and are reconcilable to Australia Post's annual report.

The cross-subsidy test results for 2008–09 for all 19 service groups is presented in table 1. Comparison of 2008–09 results with past results is presented in table 2.[22]

Table 1 Results of 2008–09 cross-subsidy tests

	Is the service group a recipient of a subsidy? (revenues less than incremental costs)		**Is the service group a potential source of subsidy?** (revenues greater than stand-alone costs)	
	Definitely (revenues less than the lower bound of incremental cost: i.e. direct costs)	**Potentially** (revenues less than the upper bound of incremental cost: i.e. direct and attributable costs)	**Definitely** (revenues greater than the upper bound of stand-alone cost: i.e. fully distributed costs plus all other unattributable costs)	**Potentially** (revenues greater than the lower bound of stand-alone cost: i.e. fully distributed costs)
Total reserved letters	NO	NO	NO	NO
Small letters ordinary	NO	YES	NO	NO
Large letters ordinary	NO	NO	NO	YES
Small letters PreSort	NO	NO	NO	NO
Large letters PreSort	NO	NO	NO	NO
International inward letters	NO	YES	NO	NO
Total non-reserved letters	NO	NO	NO	YES
Large letters ordinary	NO	NO	NO	YES
Large letters PreSort	NO	NO	NO	NO
International inward letters	NO	YES	NO	NO
International outward letters	NO	NO	NO	YES
Other letters mail services	NO	NO	NO	NO
Other letters associated services	NO	NO	NO	YES

20 The ACCC has adopted a pre-tax nominal WACC of 10.52 per cent, based on Australia Post's 2008–09 statement of WACC.

21 There are four exceptions to this general finding. Two services pass the direct and attributable cost test without a capital adjustment, but fail once a capital adjustment is made.

22 Note that changes to Australia Post's accounting policies over time, in particular the classification of service groups, will impact on comparison of results over time. See ACCC cross-subsidy reports for 2004–05 to 2008–09 (available on the ACCC website) for details of changes to accounting policies over time.

Table 1 Results of 2008–09 cross-subsidy tests *(continued)*

	Is the service group a recipient of a subsidy? (revenues less than incremental costs)		**Is the service group a potential source of subsidy?** (revenues greater than stand-alone costs)	
	Definitely (revenues less than the lower bound of incremental cost: i.e. direct costs)	**Potentially** (revenues less than the upper bound of incremental cost: i.e. direct and attributable costs)	**Definitely** (revenues greater than the upper bound of stand-alone cost: i.e. fully distributed costs plus all other unattributable costs)	**Potentially** (revenues greater than the lower bound of stand-alone cost: i.e. fully distributed costs)
Total parcels/logistics	NO	NO	NO	YES
Domestic parcels	NO	NO	NO	YES
International inward parcels	NO	NO	NO	YES
International outward parcels	NO	NO	NO	YES
Courier services	NO	NO	NO	YES
Logistics	YES	YES	NO	NO
Total retail and agency	NO	NO	NO	YES
Retail	NO	NO	NO	YES
Financial services	NO	NO	NO	YES
Total other services	NO	YES	NO	NO
Total reserved services	NO	NO	NO	NO
Total non-reserved services	NO	NO	YES	YES
Total letter services	NO	NO	NO	NO
Total non-letter services	NO	NO	NO	YES
Total letter and parcel services	NO	NO	YES	YES
Total non-letter and non-parcel services	NO	NO	NO	YES

Table 2 Results of cross-subsidy tests from 2004–05 to 2008–09

Service group	2004–05	2005–06	2006–07	2007–08	2008–09
Total reserved letters					
Small letters ordinary					
Large letters ordinary					
Small letters PreSort					
Large letters PreSort					
International inward letters					
Total non-reserved letters					
Large letters ordinary					
Large letters PreSort					
International inward letters					
International outward letters					
Other letters mail services					
Other letters associated services					
Total parcels and logistics					
Domestic parcels					
International inward parcels	NA				
International outward parcels	NA				
Courier services	NA				
Logistics					
Total retail and agency					
Retail					
Financial services					
Total other services	NA				
Total reserved services					
Total non-reserved services					
Total letter services					
Total non-letter services					
Total letter and parcel services					
Total non-letter and non-parcel services					

LEGEND

Recipient of a subsidy	
Potential recipient of a subsidy	
Neither recipient nor source of a subsidy	
Potential source of a subsidy	
Source of a subsidy	
Service group did not exist[23]	NA

23 In 2004–05 these service groups were combined with other service groups. See previous ACCC cross-subsidy reports for details of changes to service group classifications over time.

Did any service group receive a subsidy?

Revenue for the following services did not recover the direct and attributable costs of providing them, and the services were therefore potentially recipients of a subsidy in 2008–09:

- logistics services
- reserved international inward letters
- non-reserved international inward letters
- small ordinary letters (on a capital adjusted basis only)
- other services (on a capital adjusted basis only).

Logistics services was the recipient of a subsidy in 2008–09, as revenue from this service did not recover the direct costs of providing the service. Revenue for each of the remaining services was sufficient to recover direct costs, although not direct and attributable costs. In these circumstances, whether the service is the recipient of a subsidy depends on whether its attributable costs are incremental to that service—that is, whether these costs would have been avoided if the service had no longer been provided. To determine this, further information about the attributable costs would be required; however, this information is not readily available.

Small ordinary letters and reserved international inward letters services are reserved services and so are of limited concern in the context of monitoring cross-subsidy from reserved services to non-reserved services. Nonetheless, some analysis of the subsidy to these services is provided below.

Logistics

Australia Post's logistics services include international origin services, freight forwarding, warehousing, inventory management and packing, distribution and returns management, as well as electronic order processing, automated reporting and credit management.[24]

On a non-capital-adjusted basis, revenue from logistics services was $✂ million below the direct costs of providing them. The level of the under-recovery of direct costs for logistics services has increased from $✂ million in 2007–08 and $✂ million in 2006–07. Table 2 indicates that logistics services has been the recipient of a subsidy each year since the ACCC began monitoring cross-subsidy in 2004–05.

In relation to past cross-subsidy reports, Australia Post provided further information to the ACCC which indicated that logistics profitability was being affected by continuing infrastructure development of the business. Australia Post expected the profitability of logistics services to improve in the future.[25]

Direct and fully distributed costs increased from 2004–05 to 2008–09 as a result of Australia Post's infrastructure development for logistics services. Revenue from logistics services grew from 2004–05 to 2007–08 but fell in 2008–09, exacerbating the significant increase in under-recovery of direct costs that began in 2007–08.

In relation to the 2008–09 results, Australia Post stated that it had implemented a number of initiatives that had achieved benefits in 'an extremely difficult trading environment'.[26] Australia Post stated that it expected its previous forecasts to remain valid but considered that challenges of a difficult trading environment for logistics services would also remain.[27]

Domestic reserved services

In 2008–09, revenue from small ordinary letters and small PreSort letters was below the fully distributed costs of providing these services (by $✂ and $✂ respectively). Table 2 shows that this has been the case for small ordinary letter services since the ACCC began monitoring cross-subsidy in 2004–05. For small PreSort letter services, this was the case in 2007–08 and 2008–09. Although large PreSort letter revenue was above fully distributed cost in 2008–09, recovery of fully distributed cost has been decreasing since 2004–05 and is now approaching under-recovery.

On both a non-capital-adjusted basis and a capital-adjusted basis, revenue from small PreSort letters has been above the direct and attributable costs of providing these services since the ACCC began monitoring

24 Australia Post, http://auspost.com.au/postlogistics/logisticsexplained/whypostlogistics.html, accessed at 12.30 pm on Friday, 11 June 2010.

25 Australia Post, letter: Australia Post 2004–05 regulatory accounts, 4 April 2006, pp. 1–2; Australia Post, letter: Australia Post 2006–07 regulatory accounts, 13 February 2008, pp. 1–2; Australia Post, letter: Australia Post 2007–08 regulatory accounts, 2 June 2009, pp. 1–2.

26 Australia Post, letter: Australia Post 2008–09 regulatory accounts, 22 June 2010, p. 2.

27 Australia Post, letter: Australia Post 2008–09 regulatory accounts, 22 June 2010, p. 2.

cross-subsidy in 2004–05. Therefore it is unlikely that small PreSort letter services have been the recipient of a subsidy over this period.

Revenue from small ordinary letters was below direct and attributable costs on a capital-adjusted basis in 2005–06, 2007–08 and 2008–09, but above direct and attributable costs on a non-capital-adjusted basis in these years. However, the recovery of direct and attributable costs on a non-capital-adjusted basis has been decreasing since the ACCC began monitoring cross-subsidy in 2004–05, and small ordinary letters are now approaching under-recovery on this basis as well. Whether small ordinary letter services have been the recipient of a subsidy requires further information about the attributable costs, which is not readily available.

International inward letters

On a non-capital-adjusted basis, revenue for reserved international inward letters was $6.26 million below direct and attributable costs, while revenue for non-reserved international inward letters was $3.29 million below direct and attributable costs. Table 2 shows that revenue from reserved international inward letters has been below direct and attributable costs in each year since the ACCC commenced monitoring of cross-subsidy. Revenue from non-reserved international inward letters was greater than direct and attributable costs in 2004–05 but has been below direct and attributable costs in each year since.

Payment for the delivery of international letters 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 this mail. Rather, the terminal dues rates are calculated by a formula that is based on the charge for a 20 gram letter, with payments made in Australian dollars set according to a basket of currencies.

Generally, the destination postal operator receives less revenue than its actual cost of delivery. However, while there was an under-recovery in 'international inward' for both the reserved and non-reserved services, the corollary of the under-recovery is revenue greater than fully distributed costs for international outward letters. International outward letters is a non-reserved service.

International letters as a group—international inward and outward letters, reserved and non-reserved—did not recover its fully distributed costs in 2008–09.

Other services

'Other services' is a category used by Australia Post that relates to non-product-specific operations of Australia Post's business, so there is no direct relationship between revenues, costs, profit and assets allocated to this category.

Revenue from other non-reserved services includes other miscellaneous revenue that cannot be attributed to other products such as property rents, licensed Post Office sales and other revenue such as unclaimed money orders. Costs under other services consist of an allocation of corporate overheads and include property management for external leases. Assets purchased for future use are included under other services.

While revenue from other services was $39.94 million greater than the direct and attributable costs on a non-capital-adjusted basis, it was $5.28 million less than the direct and attributable costs on a capital-adjusted basis, meaning that other services may have received a subsidy in 2008–09.

Because the other services segment of Australia Post carries many assets (including many non-income-generating properties), capital adjusting the direct and attributable costs resulted in an under-recovery of revenue for this service group.

Are the reserved services a source of subsidy?

On a non-capital-adjusted basis, large ordinary letters and large PreSort letters were the only reserved service groups for which revenue was sufficient to over-recover fully distributed costs. On a capital-adjusted basis, this was only the case for large ordinary letters.

Table 3 shows the 2008–09 revenue and cost recovery on a non-capital-adjusted basis for total reserved services in comparison to total non-reserved services. In total, revenue from reserved services did recover the direct and attributable costs of providing them but did not recover the fully distributed costs of providing them. This was the case on both a non-capital-adjusted and a capital-adjusted basis.

The fully distributed cost of the reserved services may underestimate the actual stand-alone cost of providing these services. It is necessary to add back some of the unattributable costs that were allocated to the

non-reserved services (i.e. the unattributable costs that would be incurred by Australia Post whether the non-reserved services were provided or not). However, identifying the appropriate amount to be added back is problematic. As discussed in chapter 3, one approach is to establish an upper bound on the stand-alone cost. This could be done by adding back all the unattributable costs that were allocated to all other services.

Since reserved services revenue was less than the fully distributed costs of providing reserved services, adding back other unattributable costs will only increase the under-recovery.

Accordingly, the ACCC is satisfied that the reserved services were not a source of subsidy.

Table 3 Reserved and non-reserved services revenues and costs ($000) on a non-capital-adjusted basis

	Total reserved services	Total non-reserved services
Revenue	1912.2	2994.9
Direct cost	0.0	625.8
Attributable cost	1802.9	1735.4
Unattributable cost	178.4	207.6
Fully distributed cost	1981.4	2568.8
Revenue less direct cost	1912.2	2369.1
Revenue less direct and attributable costs	109.2	633.7
Revenue less fully distributed cost	(69.2)	426.1
Revenue less fully distributed cost and all other unattributable costs	(276.8)	247.7

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

Table 4 shows the cost recovery in 2008–09 on a non-capital-adjusted basis for all service groups. All non-reserved service groups earned revenue sufficient to recover the fully distributed costs of providing each respective group of services (revenue from total other services did not recover fully distributed costs on a capital-adjusted basis though). No single non-reserved service group had revenue sufficient to also recover all the unattributable costs allocated to all other services.

Although reserved letter services and other services did not provide a subsidy, it cannot be said with certainty that any other service group was the source of the subsidy to logistics services (or a potential subsidy to international inward letters). For greater certainty, further information would be required on the extent to which unattributable costs allocated to other service groups represent the stand-alone cost of the service group in question. However, this information is not readily available or necessary for the purposes of the cross-subsidy report.

Table 4 Australia Post's revenues and costs by service group totals ($000) on a non-capital-adjusted basis

	Reserved letter services	Non-reserved letter services	Parcels and logistics	Retail and financial services	Other services
Revenue	1912.2	838.4	1348.5	736.2	71.8
Direct cost	0.0	80.8	233.3	308.5	3.2
Attributable cost	1802.9	577.9	859.4	269.5	28.6
Unattributable cost	178.4	58.5	80.0	63.7	5.3
Fully distributed cost	1981.4	717.2	1172.7	641.7	37.2
Revenue less direct cost	1912.2	757.6	1115.2	427.7	68.6
Revenue less direct and attributable costs	109.2	179.7	255.8	158.2	39.9
Revenue less fully distributed cost	(69.2)	121.2	175.8	94.5	34.6
Revenue less fully distributed cost and all other unattributable costs	(276.8)	(206.3)	(130.2)	(227.8)	(346.1)

Total letter services and total mail services

Australia Post may have some degree of market power in the non-reserved segment of its letter services due to its ubiquitous collection and distribution networks, despite the fact that it does not have a legislated monopoly in the provision of non-reserved letter services. Accordingly, the ACCC has applied the stand-alone cost test to total letter services and total mail services (total letter and total parcel services) to identify possible sources of subsidy.

Table 5 shows that revenue from total (reserved and non-reserved) letter services was above the fully distributed costs of providing these services but was not sufficient to also recover the unattributable costs allocated to all other services on a non-capital-adjusted basis. On a capital-adjusted basis, revenue from total letter services was not sufficient to recover the fully distributed costs of providing these services. Total letter services therefore did not pass the upper bound of the stand-alone test and is unlikely to have provided a subsidy.

Table 5 Letter and non-letter revenues and costs ($000) on a non-capital-adjusted basis

	Total letter services	Total non-letter services
Revenue	2750.6	2156.5
Direct cost	80.8	545.0
Attributable cost	2380.8	1157.5
Unattributable cost	237.0	149.1
Fully distributed cost	2698.6	1851.6
Revenue less direct cost	2669.8	1611.5
Revenue less direct and attributable costs	288.9	454.0
Revenue less fully distributed cost	52.0	304.9
Revenue less fully distributed cost and all other unattributable costs	(97.1)	68.0

Conversely, table 6 shows that revenue from total letter and total parcel services was able to recover the fully distributed costs of providing these services as well as the unattributable costs allocated to all other services on a non-capital-adjusted basis. On a capital-adjusted basis, revenue from total letter and total parcel services was sufficient to recover the fully distributed costs of providing these services but insufficient to also recover all the unattributable costs allocated to other services. Tables 4, 5 and 6 indicate that parcel services are the greatest contributor to recovery of Australia Post's unattributable costs. Parcel services are non-reserved services.

Table 6 Letter and parcel and non-letter and non-parcel revenues and costs ($000) on a non-capital-adjusted basis

	Total letter and total parcel services	Total non-letter and non-parcel services
Revenue	3825.7	1081.3
Direct cost	84.7	541.1
Attributable cost	3169.9	368.4
Unattributable cost	309.4	76.6
Fully distributed cost	3564.1	986.1
Revenue less direct cost	3741.0	540.2
Revenue less direct and attributable costs	571.1	171.8
Revenue less fully distributed cost	261.7	95.2
Revenue less fully distributed cost and all other unattributable costs	185.1	(214.2)

6. Conclusion

Australia Post's regulatory accounts for 2008–09 do not provide evidence of cross-subsidy from the reserved services to the non-reserved services. Revenue from the reserved services was not sufficient to cover the lower or upper bound of stand-alone costs on either a non-capital-adjusted or a capital-adjusted basis.

The non-capital-adjusted fully distributed cost is the most stringent test for not being a source of cross-subsidy, in that it is the 'lower bound' of the stand-alone cost estimate. The true stand-alone cost is likely to be higher than this, reflecting that some of the costs allocated to the non-reserved services would still be incurred if the non-reserved services were not offered.

The ACCC is therefore satisfied that the reserved services were not a source of subsidy.

However, revenue from Australia Post's non-reserved services appears to be greater than both the fully distributed cost and the upper bound of the stand-alone cost of providing the non-reserved services, with and without a capital adjustment. 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. This has been the case since the ACCC began monitoring cross-subsidy in 2004–05.

Revenue from logistics services was less than the direct cost of providing those services in 2008–09. This non-reserved service group has received a subsidy in every year since the ACCC began monitoring cross-subsidy in 2004–05, but the size of the subsidy increased substantially in 2008–09.

Four other services may also have received a subsidy in 2008–09. Revenue from both reserved and non-reserved international inward letters was less than the direct and attributable costs of providing these services. Revenue from the 'other services' category in the non-reserved services was less than its direct and attributable costs on a capital-adjusted basis only. Revenue from these three services did recover their respective direct costs though. Therefore, to determine whether these services actually received a subsidy requires further analysis of the extent to which the costs attributed to these services represent their incremental costs. The information required to undertake this further analysis is not readily available.

Revenue from small ordinary letter services (a reserved service) was not sufficient to recover the fully distributed costs of providing the service in 2008–09. This has been the case in each year for which the ACCC has monitored cross-subsidy (since 2004–05). The recovery of costs attributed to small ordinary letter services has been deteriorating since 2004–05, and this service may receive a subsidy in the future if trends continue.

Nonetheless, the role of the ACCC is to monitor whether Australia Post's reserved services are subsidising the non-reserved services. As noted above, the analysis in this report indicates that the source of subsidy appears to be the other non-reserved services, not the reserved services. These results are consistent with those of past ACCC cross-subsidy reports.

Appendix—Regulatory accounting framework 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	SL—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 g.
	SL—clean	Reduced charges for customers who present quantities of correctly machine-addressed small letters.
	SL—ordinary—other	Ordinary small letters, where postage has not been paid via a postage stamp (includes payment via charge account and postage meters).
	SL—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.
	SL—impact mail	Irregular shaped mail—small.
	SL—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. (Previously included in small letters PreSort.)
Small letters PreSort	SL—regular PreSort	Reduced charges for small letters 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.
	SL—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 Australian Taxation Office. Normal delivery standards apply.
	SL—off-peak PreSort	Reduced charges for small letters 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'.

Service group	Product/service	Description
	SL—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 Australian Tax Office. Delivery standards up to three days longer than ‘regular’.
Large letters ordinary	LL—ordinary—stamped (0–250 g)	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 g, not a small letter and postage does not exceed $2.
	LL—ordinary—other (0–250 g)	Ordinary large letters, where postage has not been paid via a postage stamp (includes payment via charge account and postage meters).
	LL—clean	Reduced charges for customers who present quantities of correctly machine-addressed large letters.
	LL—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.
	LL—impact mail	Irregular shaped mail—small plus.
	LL—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. (Previously included in large letters PreSort.)
Large letters PreSort	LL—regular PreSort (0–250 g)	Reduced charges for large letter size items under 250 g 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.
	LL—off-peak PreSort (0–250 g)	Reduced charges for large letter size items under 250 g 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	LL—ordinary (250–500 g)	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 g, not a small letter and postage is at least $2.
Non-reserved large letters PreSort	LL—regular PreSort (250–500 g)	Reduced charges to customers who sort their large letters in excess of 250 g before lodgement and comply with relevant mailing conditions. Normal delivery standards apply.
	LL—off-peak PreSort (250–500 g)	Reduced charges for customers who sort their large letters in excess of 250 g before lodgement and comply with relevant mailing conditions. Delayed delivery standards apply.
Non-reserved international inward letters	non-reserved inward international letter services	The carriage and delivery within Australia of incoming international letters and related services that are outside the scope of the reserved service.
International mail (outward)—letters	outward international letter services	All letter and related services lodged in Australia for delivery to overseas addressees.
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 mm x 360 mm x 20 mm and up to 1 kg 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.
	express letters	Express post articles with a weight less than 500 g and a thickness less than 20 mm.
Other letters associated	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.
	electronic mail services	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.

Service group	Product/service description	Description
	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.
Parcels	parcels	All other domestic mail items which do not meet the criteria for letters, including items mailed under the 'express' banner excluding express letters.
Courier services	courier services	All courier services including Messenger Post and Express Courier International.
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.
Non-reserved international inward parcels	non-reserved inward international parcel services	The carriage and delivery within Australia of incoming international parcels and related services outside the scope of the reserved service.
International mail (outward)—parcels	outward international parcel services	All parcel and related services lodged in Australia for delivery to overseas addresses.
Retail	philatelic	The sale of stamps, related products and coins to the collector market.
	Postpak	The sale of postal packaging and related items.
	complementary 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.
Other services	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 products and Sprintpak.

Account code	Account item	Description
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 other costs not already included.

Schedule 6: List of account items for fixed assets

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.

Account code	Account item	Description
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, trademarks, copyright, patents, licences 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 2008–09

RESERVED	Opening	AUC[3]	Re-state opening	Addition	Retire	Transfer[2]	Revalue	Depreciation[5]	Closing
Land	360.4		360.4	0.2	–8.2	–26.0	–12.1	–	314.3
Buildings	289.4		289.4	12.7	–8.3	9.5	–34.1	–17.2	252.1
Fit-out	15.0		15.0	6.1	–0.1	0.6	–	–5.3	16.3
Motor vehicles	65.6		65.6	29.5	–6.2	6.8	–	–17.9	77.8
Mail handling plant	174.3		174.3	3.0	–0.3	10.1	–	–24.3	162.8
Other plant and equipment	51.7		51.7	20.3	–0.1	–24.5	–	–12.5	34.8
Office equipment	9.0		9.0	1.3	–0.2	0.4	–	–1.3	9.2
Counter equipment/EPOS	0.4		0.4	0.0	–0.0	8.6	–	–1.8	7.3
Software	58.3		58.3	20.0	–	9.8	–	–22.4	65.7
Intangibles	0.2		0.2	–	–	0.0	–	–	0.2
Assets under construction[3]	33.0	–33.0	–	–	–	–	–	–	–
TOTAL RESERVED	1057.3	–33.0	1024.3	93.1	–23.4	–4.5	–46.2	–102.7	940.6

NON-RESERVED	Opening	AUC[3]	Re-state opening	Addition	Retire	Transfer[2]	Revalue	Depreciation[5]	Closing
Land	631.7		631.7	0.9	–11.0	–5.3	–35.3	–	590.9
Buildings	457.0		457.0	18.7	–22.0	4.8	–58.3	–21.0	379.2
Fit-out	28.8		28.8	12.7	–0.3	–3.0	–	–8.9	29.4
Motor vehicles	55.8		55.8	15.7	–2.5	–6.7	–	–10.2	52.1
Mail handling plant	94.8		94.8	2.3	–0.2	1.7	–	–11.1	87.4
Other plant and equipment	74.3		74.3	20.2	–9.1	–12.4	–	–18.0	55.1
Office equipment	13.9		13.9	0.9	–0.3	0.3	–	–1.4	13.4
Counter equipment/EPOS	1.2		1.2	0.1	–0.0	12.6	–	–2.8	11.2
Software	68.0		68.0	21.9	–0.7	15.3	–	–30.2	74.3
Intangibles[4]	56.7		56.7	9.0	–	–8.2	–24.4	–1.2	32.0
Assets under construction[3]	31.0	–31.0	–	–	–	–	–	–	–
TOTAL NON-RESERVED	1513.1	–31.0	1482.1	102.5	–46.1	–0.8	–118.0	–104.7	1315.0
UNALLOCATED[3]		64.0	64.0	115.6	–	5.3	9.6	–	194.6
TOTAL FIXED ASSETS[1]	2570.5	–	2570.5	311.2	–69.6	0.0	–154.6	–207.4	2450.2

Note 1: Movements in non-AM adj are entered as balancing items as only opening and closing balances are provided. Entries are not material.

Note 2: The transfer column includes both transfers of physical assets and movements due to changes in allocations.

Note 3: Assets under construction are not allocated to service groups. Opening balance has been restated as a result of this change.

Note 4: Intangible revaluations relate to the write-down of intangibles.

Note 5: Depreciation is obtained from cost as reflected in the ledger.

Schedule 9: Statement of service group usage

Service group	Volume (m)	Description
Total—ordinary small letters	1630.9	Total posted ordinary small letters
Total—PreSort small letters	2112.5	Total posted PreSort small letters
Total—ordinary large letters	205.4	Total posted reserved and non-reserved ordinary large letters
Total—PreSort large letters	153.1	Total posted reserved and non-reserved PreSort large letters

ACCC contacts

Infocentre: 1300 302 502

Website: www.accc.gov.au

Callers who are deaf or have a hearing or speech impairment can contact the ACCC through the National Relay Service www.relayservice.com.au

For other business information go to www.business.gov.au

ACCC addresses

National office

23 Marcus Clarke Street
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Canberra ACT 2601

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Fax: 02 6243 1199

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Sydney NSW 2000

GPO Box 3648
Sydney NSW 2001

Tel: 02 9230 9133
Fax: 02 9223 1092

Victoria

Level 35, The Tower
360 Elizabeth Street
Melbourne Central
Melbourne Vic 3000

GPO Box 520
Melbourne Vic 3001

Tel: 03 9290 1800
Fax: 03 9663 3699

Queensland

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Level 24, 400 George Street
Brisbane Qld 4000

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George Street Post Shop
Brisbane Qld 4003

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Townsville Qld 4810

PO Box 2016
Townsville Qld 4810

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Perth WA 6000

PO Box 6381
East Perth WA 6892

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Darwin NT 0800

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Darwin NT 0801

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GPO Box 1210
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