Australian Competition & Consumer Commission

Assessing cross-subsidy in Australia Post 2010–11

An ACCC report

MAY 2012

Australian Competition and Consumer Commission
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ISBN 978 1 921964 91 6

ACCC 04/12_47542_525

www.accc.gov.au

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Glossary

ACCC	Australian Competition and Consumer Commission
AIFRS	Australian 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	a cross-subsidy occurs where profits from the supply of a service are used to cover a loss incurred in the supply of another service
CCA	*Competition and Consumer Act 2010* (formerly *Trade Practices Act 1974*)
CSO	community service obligation
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 not subject to Australia Post's statutory monopoly (i.e. generally, services it provides in competition with other businesses).
RAF	regulatory accounting framework
record-keeping rule (RKR)	a requirement by the ACCC that Australia Post keep certain records
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 APCA legislation (i.e. no other entity can provide these services)
segment	For the purpose of compliance with the ACCC's Regulatory Accounting Framework, Australia Post combines service groups into broader 'segments'. Australia Post's segments in 2010–11, as per Schedule 1 in Appendix B, were letters and associated (reserved and non-reserved), parcels and logistics, retail and agency, and other services.
service group	the service groups defined in Schedule 1 of the RKR information provided by Australia Post (for example, logistics services is a service group)
stand-alone cost	the cost of producing each output or service 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
UPU	Universal Postal Union
WACC	weighted average cost of capital

Key findings

- The ACCC is required to determine, using Australia Post's regulatory accounts, whether Australia Post cross-subsidised its non-reserved services with revenue from its reserved services.
  - Reserved services are those services in the supply of which Australia Post has a statutory monopoly.
  - Non-reserved services are services not subject to Australia Post's statutory monopoly (i.e. generally, services it provides in competition with other businesses).
- The ACCC is satisfied that Australia Post's reserved services, at an aggregate level, were not a source of subsidy for its non-reserved services. Rather, they were a possible recipient of a subsidy from non-reserved services.
- This outcome is not a concern in terms of cross-subsidy testing. However, it does suggest that, on the basis of its 2010–11 accounting data and cost allocations, Australia Post has a strong market position in certain non-reserved areas (such as the growing area of parcels). These services are able to subsidise the services that are subject to Australia Post's statutory monopoly (i.e. reserved letter services).
- At a service group level, revenue from small ordinary letters, small PreSort letters and large PreSort letters was not sufficient to recover the direct and attributable costs of providing the respective services in 2010–11. In the case of small ordinary letters, this has been the case in each year for which the ACCC has monitored cross-subsidy (with the exception of 2004–05).
- Revenue from Australia Post's non-reserved services (as a whole) in 2010–11 was greater than the estimate of the stand-alone cost of providing non-reserved services. The ACCC is therefore satisfied that non-reserved services (as a whole) did not receive a subsidy. Rather, they were a source of subsidy in 2010–11.
- Individually, logistics services (a non-reserved service group) received a subsidy in 2010–11 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). 'Other services' (another non-reserved service group) also received a subsidy from other non-reserved services in 2010–11.
- Three other non-reserved service groups may also have received a subsidy from the (other) non-reserved services in 2010–11—international inward letters and international inward parcels, and 'other letter mail services'.

1 Introduction

The ACCC has a role under the *Australian Postal Corporation Act 1989* (APCA) to assess whether Australia Post is cross-subsidising its non-reserved services (generally, services it provides in competition with others) with revenues from its reserved (statutory monopoly) services. This report presents the results of the ACCC's cross-subsidy analysis based on Australia Post's regulatory accounts for the 2010–11 financial year.

Financial data that is considered by the ACCC to be confidential to Australia Post is not disclosed in this report. Such exclusions are indicated by ✂ in the report.

The conclusions in the report are presented on a capital-adjusted basis, unless otherwise noted. In the ACCC's cross-subsidy assessment the cost of capital is treated as a legitimate economic cost of the business and is included in the tests. However, as discussed in Appendix A, 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, and recognises Australia Post's claim of confidentiality over its weighted average cost of capital (WACC) and its components.

The remainder of this report is structured as follows:

- Section 2 provides an overview of Australia Post and 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 for 2010–11.
- Section 5 presents the ACCC's conclusions.

Appendix A outlines Australia Post's cost allocation methods and accounting policies.

The non-confidential schedules submitted by Australia Post in accordance with the RKRs are included in Appendix B.

2 Background

This report presents the results of the ACCC's analysis of Australia Post's regulatory accounts for the 2010–11 financial year in order to determine whether Australia Post cross-subsidised its non-reserved services with revenue from its reserved services.

The ACCC was given this role in 2004 in response to complaints by competitors that Australia Post was damaging competition by cross-subsidising its competitive services with revenues from its reserved services.[1] In June 2004 the APCA was amended to provide for the ACCC to issue a Record Keeping Rule (RKR) that would 'enable the ACCC to scrutinise whether or not Australia Post is cross-subsidising from reserved services to the services it provides in competition with others'.[2]

The ACCC issues reports on its assessment of cross-subsidy in Australia Post on an annual basis. This is the seventh of these reports.

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

2.1 Australia Post's functions and obligations

Australia Post is the government-owned provider of postal services in Australia.

At the end of 2010–11, Australia Post employed approximately 33 500 people and operated around 4420 retail outlets. In 2010–11 Australia Post delivered approximately 5 billion items of mail to 10.9 million Australian addresses, and served around a million customers in its retail outlets each business day. In that financial year, it reported a post-tax net profit of $241.2 million (an operating profit before tax of $332.3 million), representing a return of 10.9 per cent on average operating assets and a return of 6.6 per cent on revenue.[3]

The APCA requires that:

- Australia Post must, as far as is practicable, perform its functions in a manner consistent with sound commercial practice[4]
- Australia Post is required to meet certain community service obligations (outlined below)[5]
- Australia Post must perform its functions in a way consistent with general government policy and any directions given by the minister.[6]

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. 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.

1 A situation where a monopolist is able to cross-subsidise its competitive services by revenues from its monopoly services may damage competition in the markets in which it competes, because the monopolist is able to sustainably maintain prices in those markets below cost, using profits from its monopoly services. This situation also means that prices for the monopoly services are, on the whole, at higher than competitive levels.

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

3 Australia Post annual report 2010–11.

4 Section 26 of the APCA.

5 Section 27 of the APCA.

6 Section 28 of the APCA.

2.2 Services 'reserved' to Australia Post

In recognition of its community service obligations, Australia Post has a general monopoly in the carriage and delivery of letters within Australia, subject to some specific exemptions.

The services covered 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.

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.[7]

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

As noted above, the monopoly in relation to reserved services is 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 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 on behalf of a foreign country under a convention
- 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.

2.3 ACCC role in the regulation of postal services

The ACCC has three key roles in the regulation of postal services under the CCA and the APCA.

This report deals only with one of these roles, pursuant to which the ACCC has the power to require Australia Post to keep certain records.[8] The ACCC uses these records to monitor for the presence of cross-subsidy between Australia Post's reserved and non-reserved services.

The records that the ACCC may require to be kept by Australia Post must be relevant to the financial relationship between:

- parts of Australia Post's business that relate to reserved services and parts that do not, and
- different parts of Australia Post's business that relate to reserved services.

The ACCC also has two other roles under the CCA and the APCA:

- assessing proposed price increases of Australia Post's declared[9] services
- inquiring into certain disputes regarding the terms and conditions on which Australia Post supplies its bulk mail services.

7 Section 3 of the APCA.

8 Section 50H of the APCA.

9 In 2011, the Australian Government undertook a regulatory impact analysis, as a result of which it has decided to limit the prices surveillance of Australia Post letter services from all reserved services to certain letter services reserved to Australia Post. For example, the 60 cent basic postage rate (BPR) and other Ordinary letter services remain 'declared' and thus subject to price notification requirements. The other services currently reserved to Australia Post are no longer declared. Refer *Price Notification Declaration (Australia Post Letter Services) (No. 2) 2011.*

2.4 Record-keeping rule powers

As referred to above, to assist in fulfilling its role in postal regulation, the ACCC can issue RKRs to Australia Post that require Australia Post to keep specified records and provide them to the ACCC. The major reason for granting the ACCC the power to issue RKRs was to enable the ACCC to assess whether Australia Post is cross-subsidising from its reserved services to the services it provides in competition with others.

The rationale for this is that a situation where a monopolist is able to cross-subsidise its competitive services by revenues from its monopoly services may damage competition in the markets in which it competes, because the monopolist is able to sustainably maintain prices in those markets below cost using profits from its monopoly services. In such a situation, customers that use the monopoly services are charged higher prices that contain a subsidy for the customers that use the monopolist's competitive services. This may result in economically inefficient over-consumption of non-reserved services, and may also negatively affect the competitiveness of the non-reserved service market. Additionally, in such a situation an economic inefficiency arises because prices for the monopoly services are, on the whole, at higher than competitive levels.

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. 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.[10] 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.[11]

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 Sections 50I and 50J of the APCA.

11 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.

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 reserved services is greater than the stand-alone cost of providing them.

As discussed in section 3.1 below, in assessing Australia Post’s regulatory accounts for the presence of cross-subsidy, the ACCC relies on accounting proxies for economic stand-alone and incremental costs.

The assessment of whether a cross-subsidy occurs is independent of the question of the efficiency of Australia Post’s costs, which the ACCC has historically considered as part of its price notification assessments.

The ACCC’s cross-subsidy assessment relies on Australia Post’s cost allocation system. As discussed in Appendix A.1.2, the ACCC has expressed concern about maintaining—for the purposes of pricing reserved services—a pure activity-based cost allocation methodology in the current environment of declining mail volumes.[12] The ACCC and Australia Post agreed in 2011 that the current approach to assessing prices, including the allocation of costs, needs to be re-examined.[13]

3.1 Economic vs accounting costs

The ACCC considers that Australia Post would be likely to 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 the one Australia Post currently uses to keep its accounting records.[14]

Accordingly, the incremental and stand-alone costs referred to in this report are based on accounting data and provide a proxy for what the true economic incremental or stand-alone costs may be. The cost proxies used by Australia Post are direct, attributable and unattributable costs:

- **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
- **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.

These cost proxies are described in more detail in Appendix A.1.1.

3.2 Testing for cross-subsidy

The formal definition of cross-subsidy that has developed in the economic literature comprises two tests that compare a service’s revenues to different cost concepts:

- The stand-alone cost test for whether a service is a **source** of cross-subsidy (refer section 3.3)
  - The lower bound of the stand-alone cost test is the service’s fully distributed cost. Where the service’s revenue exceeds fully distributed cost (i.e. the sum of the service’s direct, attributable and unattributable costs), it may be a source of subsidy.
  - The upper bound of the stand-alone cost test is the sum of the service’s direct and attributable costs, and the total of all of Australia Post’s unattributable costs. Where the service’s revenue is above this upper bound, it is a definite source of subsidy.
- The incremental cost test for whether a service is a **recipient** of cross-subsidy (refer section 3.4)

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

13 ACCC, final decision, Australian Postal Corporation 2011 price notification for bulk mail services, June 2011, p. 5.

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

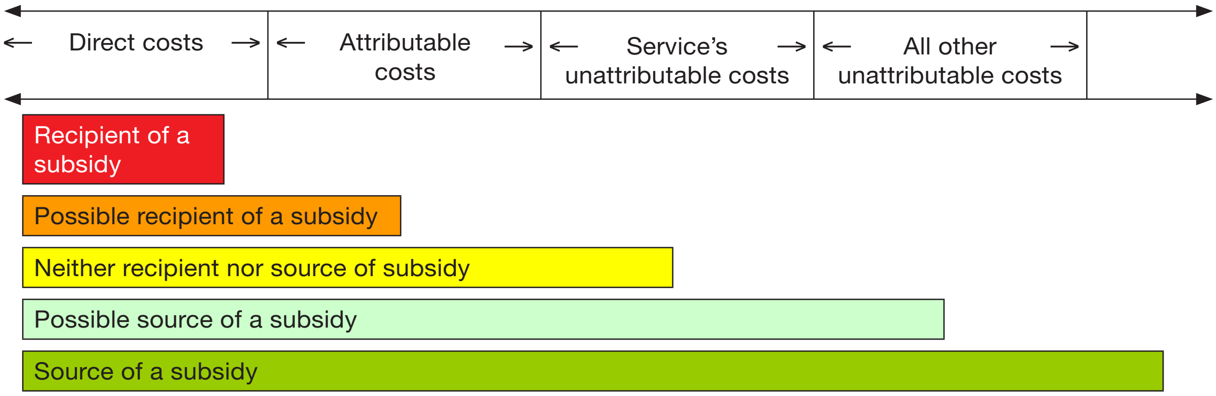
Where revenue is less than direct costs, the service is a recipient of a subsidy. This is the lower bound of the incremental cost test.

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. This is the upper bound of the incremental cost test.

The range of possible cross-subsidy results is presented graphically at Chart 3.1 below.

Chart 3.1 Range of possible cross-subsidy results

Service revenue recovers:



These tests, as applied to Australia Post by the ACCC, are discussed in sections 3.3 and 3.4 below.

3.3 Test for whether a service is a source of a subsidy

A service (or combination of services) is a source of subsidy if the revenue generated by that service (or combination of services) is greater than the stand-alone cost of the service. This test is referred to as the stand-alone cost test.

- The stand-alone cost of a service is the cost of producing that service in isolation.
- Whether a cross-subsidy has occurred depends on the second test being 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 on the particular service.

The stand-alone cost of a service typically lies between:

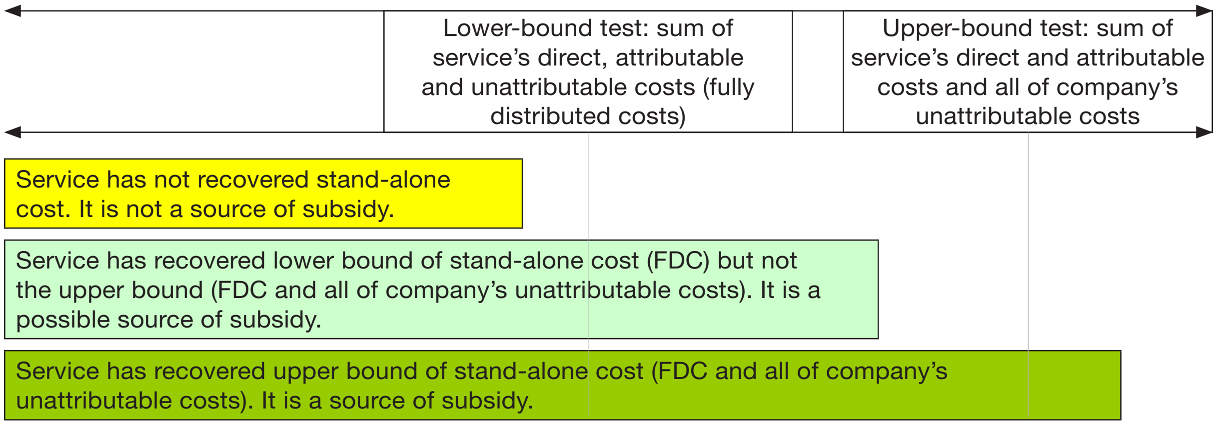
- the sum of direct, attributable and unattributable costs (this amount is known as the fully distributed cost) allocated to the particular service and
- the sum of direct and attributable costs for that service plus all of the company's unattributable costs.

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.

The way in which the stand-alone cost test is applied to Australia Post is illustrated in Chart 3.2.

Chart 3.2 Stand-alone cost test

Service revenue recovers:



The results of this test will only be valid to the extent that the service's direct and attributable costs are an accurate reflection of the incremental costs of the service concerned. As noted above, Australia Post is not required to provide estimates of economic incremental costs of services to the ACCC under the RKRs.

Further, there may be more than one source of subsidy. Where a particular service receives a subsidy and 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.[15]

Alternatively, if revenue from total reserved services is less than the stand-alone cost of providing these services, there can be no cross-subsidy from reserved to non-reserved services. In this case, even if a non-reserved service (or group of services) is the recipient of a subsidy, there must be an alternative non-reserved source of subsidy, or the company is operating at an economic loss.

Lower bound for stand-alone test—service's fully distributed costs (if satisfied, service is a possible source of subsidy)

The fully distributed cost of a service is defined as the sum of the service's direct, attributable and unattributable costs, as per Australia Post's cost allocation system. If a service does recover its direct and attributable costs but does not recover its fully distributed costs, it is not a source of subsidy—but it is also not a recipient of a subsidy.

In Australia Post's case, it appears likely that fully distributed costs may underestimate stand-alone costs in some cases. This is especially so for reserved services, because of the large proportion of attributable and unattributable costs common to more than one 'letters' service group. For example, the labour costs associated with the delivery of letters is largely driven by the number of delivery points and the frequency of delivery rather than by the number of letters delivered. If non-reserved letters services were no longer offered by Australia Post, this would be unlikely to significantly reduce Australia Post's labour costs associated with outdoor delivery.

Upper bound for stand-alone test—sum of service's fully distributed cost and company's total unattributable costs (if satisfied, service is a definite source of subsidy)

The sum of a service's fully distributed costs, and **all** of the company's remaining unattributable costs forms the upper bound of the stand-alone test. That is, for a service to be a definite source of subsidy its revenue would need to recover the sum of:

- those costs that are allocated to it (i.e. its fully distributed cost) and also
- the company's remaining unattributable costs (these costs have been allocated to other services but, because unattributable costs are not readily identifiable to any particular service by a separable cause-and-effect relationship, some of these costs may actually form part of the stand-alone cost i.e. they may still be incurred if the service is produced in isolation).

15 For example, if reserved services revenue is greater than the stand-alone cost of reserved services and non-reserved revenue is greater than the stand-alone cost of non-reserved services, both reserved and non-reserved services are sources of subsidy under the stand-alone cost test. In such a case, the overall business and both business areas are profitable, and if a particular service group (e.g. logistics) receives a subsidy, it is impossible to determine whether the subsidy was provided by reserved or non-reserved services.

In theory, if revenue is above the upper bound of stand-alone cost, that particular service is a source of subsidy. However, this does not necessarily mean that a cross-subsidy has occurred—it may be that Australia Post is simply earning positive economic profit on that service. For a cross-subsidy to have occurred, it is necessary that there is also a recipient of the subsidy (i.e. the incremental cost test described in section 3.4 also needs to be satisfied).

It is worth noting that the upper bound of the stand-alone test appears to yield more reasonable results when it is applied to a wider group of services (for example, parcels and logistics, compared to just parcels). This is because it is likely that a large proportion of the business's unattributable costs would not be incurred if an individual service group (e.g. large PreSort letters) was produced in isolation. In contrast, if a wider group of services (e.g. all letter services) was to be produced 'in isolation', then a larger proportion of the business's unattributable costs would still be incurred. Thus,

- adding all of Australia Post's unattributable costs to the direct and attributable costs of an individual service group (e.g. large PreSort letters) is likely to overestimate the stand-alone cost of providing that service
- when adding all of Australia Post's unattributable costs to the direct and attributable costs of a larger group of services (e.g. all letter services), the amount of the overestimation is likely to reduce.

3.4 Test for whether a service is a recipient of a subsidy

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. This test is referred to as the incremental cost test.

- The incremental cost of a service is defined as the additional cost incurred in 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, for a cross-subsidy to occur it is necessary for there to also be a service that has revenues greater than the stand-alone cost of providing the service (i.e. as per the first test above at section 3.3). If there is no source of subsidy available, Australia Post is simply incurring an economic loss on the particular service.

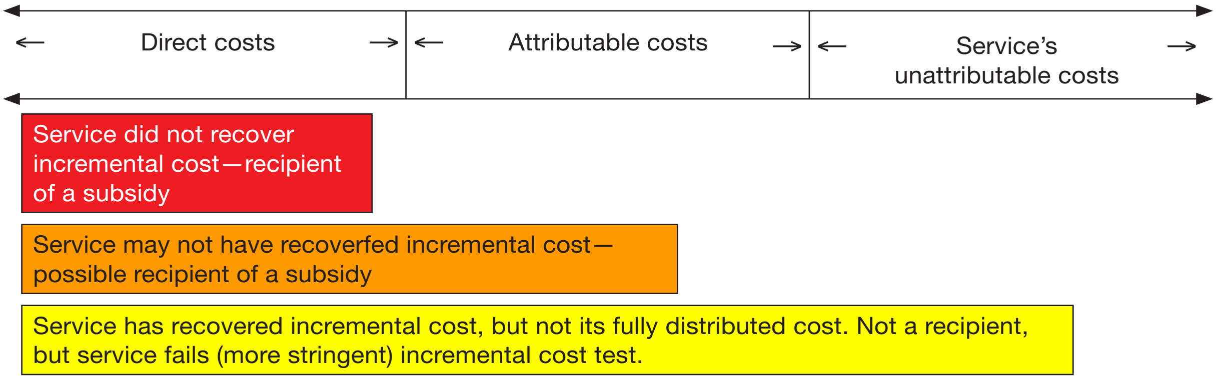
As noted at section 3.1 above, the ACCC relies on Australia Post's direct, attributable and unattributable costs as proxies for economic costs. The proxies are used in the following way:

- Costs that are **direct** to a particular service will be incremental to that service as they are 'solely associated with a particular service' and would therefore be avoided if that service were no longer offered.
- A cost that is **attributable** to a group of services is incremental to that combination of services (i.e. if that combination of services were no longer offered, the cost would be avoided) and may be incremental to a particular individual service. The extent to which a particular attributable cost is incremental to a particular individual service depends on the extent to which Australia Post can avoid this particular cost by not providing that particular service.
- Costs that are **unattributable** are defined as being a 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. By nature, many of these costs are unlikely to be incremental to any particular service (for example, head office costs are unlikely to be able to be substantially reduced if an individual letter service was no longer offered).

The way in which the incremental cost test is applied to Australia Post is illustrated in Chart 3.3, and discussed below.

Chart 3.3 Incremental cost test

Service revenue recovers:



Direct costs test (if satisfied, service is a definite recipient of a subsidy)

Where a service's revenue is less than its direct costs, the service is a definite recipient of a subsidy. This is the lower bound of the incremental cost test.

Direct and attributable cost test (if satisfied, service is a possible recipient of a subsidy)

Where a service's revenue is sufficient to cover the direct costs, but less than the sum of its direct and attributable costs, the service may be the recipient of a subsidy. This is the upper bound of the incremental cost test. 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.

Fully distributed cost test (a more stringent test than incremental cost test)

Fully distributed costs are compared with revenue to show whether each of the services is, in addition to meeting its estimated incremental cost, also meeting Australia Post's allocation of common (unattributable) costs. It may be that, for example, some of these unattributable costs are in fact also incremental to the provision of the service. The fully distributed cost test is more stringent than the incremental cost test described above, in that it requires the service's revenue to exceed a higher level of costs.

A service that recovers its direct and attributable costs but does not recover its fully distributed costs is not a recipient of a subsidy, but it is also not a source of cross-subsidy either (i.e. it is below the lower bound of the stand-alone test described in section 3.3).

3.5 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 may 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 preferable. Further analysis of key trends and changes over time is set out in Table 2 and section 4.1.

4 Analysis of Australia Post's 2010–11 accounts

This Section sets out the results of the ACCC's analysis of Australia Post's regulatory accounts for 2010–11.

As discussed in Appendix A.2, 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 on the capital employed for each service group. The ACCC does not endorse Australia Post's proposed WACC either for the purposes of cross-subsidy analysis or for other purposes—such as a price notification. Nor does the ACCC endorse the various input parameters used by Australia Post in its statement of WACC. However, a lower WACC, such as that used in the ACCC's decision on the 2010 price notification, does not have a material effect on the cross-subsidy tests in this report. Accordingly, it is not necessary for the ACCC to determine a precise WACC for current purposes.

Similarly, the test results are generally robust whether or not the capital adjustment occurs (i.e. the capital adjustment only affects the size of the subsidy). There are some exceptions to this finding: these are highlighted in Table 1 below.

Despite use of the capital-adjusted costs in testing, all dollar cost figures in this report are reported on a non-capital adjusted basis. 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 information contained in the statement of capital employed.

The ACCC has applied the incremental cost test and the stand-alone cost test to each of the service groups, and the broader segments.

The overall conclusion based on Australia Post's regulatory accounts is that the non-reserved services did not receive a subsidy from reserved services—on the contrary, on the whole, non-reserved services were a source of subsidy in 2010–11. This result, which is broadly consistent with past cross-subsidy reports, is not a concern in terms of cross-subsidy testing. However, it does suggest that, on the basis of its 2010–11 accounting data and cost allocations, Australia Post has a strong market position in certain non-reserved areas (such as the growing area of parcels). These services are able to subsidise the services that are subject to Australia Post's statutory monopoly (i.e. reserved letter services).

The following table presents the cross-subsidy test results for 2010–11 for all 18 service groups. Where capital-adjusting has affected the test result, the non-capital-adjusted test result is included in brackets. A time-series of the ACCC's cross-subsidy tests is presented in Table 2.[16]

16 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 2009–10 (available on the ACCC website) for details of changes to accounting policies over time.

Table 1 Results of 2010–11 cross-subsidy tests

	Is the service group a recipient of a subsidy? (Revenues less than incremental costs)		**Is the service group a source of a 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**	**YES**	**NO**	**NO**
small letters ordinary	NO	YES	NO	NO
large letters ordinary	NO	NO	NO	YES
small letters pre sort	NO	YES	NO	NO
large letters pre sort	NO	YES (NO)	NO	NO (YES)
total non-reserved letters	**NO**	**NO**	**NO**	**YES**
large letters ordinary	NO	NO	NO	YES
large letters pre sort	NO	NO	NO	NO (YES)
international inwards letters[17]	NO	YES	NO	NO
international outwards letters	NO	NO	NO	YES
other letter mail services	NO	YES (NO)	NO	NO (YES)
other letters assoc services	NO	NO	NO	YES
total parcels/logistics	**NO**	**NO**	**YES**	**YES**
domestic parcels	NO	NO	NO (YES)	YES
international inwards parcels	NO	YES	NO	NO
international outwards 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	**YES (NO)**	**YES (NO)**	**NO**	**NO (YES)**
total reserved services	**NO**	**YES**	**NO**	**NO**
total non-reserved services	**NO**	**NO**	**YES**	**YES**
total letter services	**NO**	**YES (NO)**	**NO**	**NO (YES)**
total non-letter services	**NO**	**NO**	**YES**	**YES**
total mail services	**NO**	**NO**	**NO (YES)**	**YES**
total non-mail services	**NO**	**NO**	**NO (YES)**	**YES**

17 Includes letters previously classified as international reserved letters.

Table 2 Results of cross-subsidy tests from 2004–05 to 2010–11

Service group	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10[18]	2010–11
Total reserved letters	Light green	Yellow	Yellow	Yellow	Yellow	Orange	Orange
Small letters ordinary	Yellow	Orange	Orange	Orange	Orange	Orange	Orange
Large letters ordinary	Light green	Light green	Light green	Light green	Light green	Light green	Light green
Small letters PreSort	Light green	Light green	Light green	Yellow	Yellow	Orange	Orange
Large letters PreSort	Light green	Light green	Light green	Light green	Yellow	Orange	Orange
Total non-reserved letters	Light green	Light green	Light green	Light green	Light green	Light green	Light green
Large letters ordinary	Light green	Light green	Light green	Light green	Light green	Light green	Light green
Large letters PreSort	Light green	Light green	Light green	Light green	Yellow	Yellow	Yellow
International inward letters[19]	Yellow	Orange	Orange	Orange	Orange	Orange	Orange
International outward letters	Light green	Light green	Light green	Light green	Light green	Light green	Light green
Other letter mail services	Yellow	Light green	Light green	Light green	Yellow	Yellow	Orange
Other letters associated	Light green	Light green	Light green	Light green	Light green	Light green	Light green
Total parcels and logistics	Light green	Light green	Light green	Light green	Light green	Light green	Green
Domestic parcels	Light green	Light green	Light green	Light green	Light green	Light green	Light green
International inward parcels	NA	Light green	Yellow	Yellow	Light green	Orange	Orange
International outward parcels	NA	Light green	Light green	Light green	Light green	Light green	Light green
Courier services	NA	Light green	Light green	Light green	Light green	Yellow	Light green
Logistics	Red	Red	Red	Red	Red	Red	Red
Total retail and agency	Light green	Light green	Light green	Light green	Light green	Light green	Light green
Retail	Light green	Light green	Light green	Light green	Light green	Yellow	Light green
Financial services	Light green	Light green	Light green	Light green	Light green	Light green	Light green
Total other services	NA	Light green	Light green	Orange	Orange	Yellow	Red
Total reserved services	Light green	Yellow	Yellow	Yellow	Yellow	Orange	Orange
Total non-reserved services	Green	Green	Green	Green	Green	Light green	Green
Total letter services	Green	Light green	Light green	Light green	Yellow	Orange	Orange
Total non-letter services	Light green	Green	Green	Light green	Light green	Light green	Green
Total mail services*	Green	Green	Green	Green	Green	Yellow	Light green
Total non-mail services*	Light green	Light green	Light green	Light green	Light green	Light green	Light green
TOTAL	Green	Green	Green	Green	Green	Yellow	Green

LEGEND

Recipient of a subsidy	Red
Potential recipient of a subsidy	Orange
Neither recipient nor source of a subsidy	Yellow
Potential source of a subsidy	Light green
Source of a subsidy	Green
Service group did not exist[20]	NA

* Mail services is defined as letter and parcel services

18 In 2009–10, Australia Post incurred $150 million of restructuring costs associated with the Future Ready program. As outlined in the 2009–10 cross-subsidy report, the ACCC's overall conclusions (that Australia Post's reserved services were not a source of subsidy for its non-reserved services) was not impacted by these costs.

19 Includes letters previously classified as international reserved letters.

20 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.

4.1 Key trends and changes over time

The following section outlines the general trends over the seven years that the ACCC has been conducting its cross-subsidy analysis.

Total business

- In 2010–11, Australia Post's overall revenues were greater than overall costs. This was the case in all of the prior years except 2009–10, in which Australia Post's regulatory accounts were affected by $150 million of restructuring costs incurred.

Broad business area

- *Reserved services* have been a potential source of subsidy in 2004–05, neither the recipient nor source of a subsidy from 2005–06 to 2008–09, and a potential recipient of a subsidy in 2009–10 and 2010–11. In general, the cost recovery of reserved services has been declining together with letter volumes.
- *Non-reserved services* have been a source of subsidy for each of the years (except in 2009–10 in which they were a potential source of subsidy).
- *Letter services* (reserved and non-reserved) as a whole have been a source of subsidy in 2004–05, potentially a source of subsidy from 2005–06 to 2007–08, neither the recipient nor source of a subsidy in 2008–09 and a potential recipient of a subsidy in 2009–10 and 2010–11. Like reserved letters, letter services' cost recovery has followed the trend of overall letter volumes.
- *Non-letter services* as a whole have been a potential source of subsidy in 2004–05 and 2007–08 to 2009–10, and a source of subsidy in 2005–06 to 2006–07, and 2010–11.
- *Mail services* (includes letters and parcels) have been a source of subsidy in 2004–05 to 2008–09, neither the recipient nor source of a subsidy in 2009–10, and a potential source of subsidy in 2010–11.
- *Non-mail services* (all services except letters and parcels) have been potentially a source of subsidy for each of the years.

Segment

- *Letters and associated–reserved letter services*: see 'reserved services' above.
- *Letters and associated–non-reserved letter services* segment has been a potential source of subsidy for each of the years.
- *Parcels and logistics services* segment was definitely a source of subsidy in 2010–11, despite the fact that the 'logistics services' service group was the recipient of a subsidy. In every other year the segment had been a potential source of subsidy.
- *Retail and agency services* segment has been a potential source of subsidy for each of the years.
- *'Other services'* segment has been a potential source of subsidy in 2005–06 and 2006–07, a potential recipient of a subsidy in 2007–08 to 2008–09, neither the recipient nor source of a subsidy in 2009–10, and a recipient of a subsidy in 2010–11.

4.2 Did any service group receive a subsidy in 2010–11?

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 2010–11:

- logistics services (non-reserved) (discussed at section 4.2.1)
- international inward letters (non-reserved)[21] (section 4.2.2)
- international inward parcels (non-reserved) (section 4.2.3)
- other services (non-reserved) (section 4.2.4)
- other letter mail services (non-reserved) (section 4.2.5)
- small ordinary letters (reserved) (section 4.2.6)
- small PreSort letters (reserved) (section 4.2.6)
- large PreSort letters (reserved) (section 4.2.6).

21 Includes letters previously classified as international inward reserved letters.

'Logistics services' received a subsidy in 2010–11, as revenue from this service did not recover the direct costs of providing the service. However, the source of this subsidy was other non-reserved service revenue, as opposed to reserved services.

'Other services' also received a subsidy in 2010–11, but only when considered on a capital-adjusted basis. The source of this subsidy was also other non-reserved service revenue. When considered on a non-capital-adjusted basis, 'other services' was not a recipient of a subsidy–it was a potential source of subsidy. The difference in the capital-adjusted and the non-capital-adjusted results reflects the fact that this segment carries many assets (including many non-income-generating properties). This segment consists of non-product services, such as property rents, and thus there is no direct relationship between revenues, costs, profit and asset allocations in this segment.

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 group—that is, whether these costs would have been avoided if the service group had no longer been provided. Further information about the attributable costs—that is not readily available at present—would be required to determine if the service is the recipient of a subsidy. To determine which of Australia Post's attributable (or unattributable) costs are incremental to particular service groups would require a broader cost review to be undertaken.

Small ordinary letters, small PreSort letters, and large PreSort letters are reserved services and so the failure of these service groups to recover their direct and attributable costs is of limited concern in the context of monitoring cross-subsidy from reserved services to non-reserved services.

While the delivery of international inward letters by Australia Post is not strictly a 'reserved service' as defined in the APCA, Australia Post has been nominated by the Australian Government to fulfil its obligations under the Universal Postal Union (UPU) convention, including the delivery of incoming international letters and parcels weighing less than 2 kilograms. The prices of these items (i.e. letters and parcels weighing less than 2 kg) are effectively capped by the UPU convention, or involve bilateral agreements with other countries, and thus international inward letters and parcels are not a concern in terms of cross-subsidy.

Australia Post's statutory monopoly currently prevents other operators from providing inward international letter services for letters weighing less than 250 grams (as no other operator has been nominated by the Government to fulfil its obligations under the UPU convention). No such restriction exists for letters weighing more than 250 grams or for parcels, so other operators are able to deliver such services outside the ambit of the UPU convention.

Further information on the services that were recipients (or potential recipients) of a subsidy is provided below.

4.2.1 Logistics services (non-reserved)

Australia Post's logistics services service group was the recipient of a subsidy from other non-reserved services revenue in 2010–11. The group had been a recipient of a subsidy in every year since the ACCC began assessing Australia Post's regulatory accounts for the presence of cross-subsidy.

Australia Post's domestic logistics business was divested during the 2011–12 year as part of the company's Future Ready program. From 1 October 2011, DHL took ownership of a number of Post Logistics Australasia (PLA) assets, customers and sites. PLA is the major component of the 'logistics services' service group.

4.2.2 International inward letters (non-reserved)

Payment for the delivery of international mail is generally overseen by the Universal Postal Union (UPU) under a system known as 'terminal dues'.[22] The terminal dues payable to the destination postal operator are not based on the actual costs incurred in delivering this mail. Rather, terminal dues remuneration is linked to a formula that uses a percentage of the 60 cent basic postage rate.

Revenue from the international inward letters service group was $✂ million below the direct and attributable costs of providing the services in 2010–11. As shown in Table 2, revenue from international inward letters has been below direct and attributable costs in each year for which the ACCC has monitored cross-subsidy (except 2004–05).

While there was an under-recovery of fully distributable costs in international inward letters, international outward letters substantially over-recovered its fully distributable costs for each of the years.

22 For the purpose of Australia Post's 2010–11 regulatory accounts, international inward mail is being classified as a non-reserved service: refer to Appendix A, section A.2.2 Changes to accounting policy. Prior to 2009–10 international inward letters weighing less than 250 grams had been categorised as reserved. However, Australia Post is currently the only operator able to carry international inward letters under 250 grams.

International letters as a group—international inward and outward letters—has not recovered its fully distributed costs in any year except 2004–05.

Australia Post has advised that it expects this service group to continue to under-recover its direct and attributable costs in the near future, despite the increase in terminal dues that occurred on 1 January 2011.[23]

4.2.3 International inward parcels (non-reserved)

The inward international parcel service group is made of three different product categories, namely:

- Parcels < 2 kg (part of the terminal dues stream with other international inward mail)
- Parcels > 2 kg
- EMS Courier (EMS)

Revenue from the international inward parcels service group was $✂ million below the direct and attributable costs of providing the services in 2010–11.

According to Australia Post, the performance of the service group is dependent on:

- parcel volumes
- the $A/SDR exchange rate
- further changes in volume composition between Parcels < 2 kg, Parcels > 2 kg and EMS
- allocation of domestic delivery costs.[24]

Australia Post submits that the recent decline in the performance in this service group has been due to a shift in volume-mix towards the Parcels < 2 kg category, which forms part of the terminal dues stream, where Australia Post's remuneration is currently linked by a formula to the 60 cent basic postage rate.[25] One of the reasons contributing to the rapid growth in volumes in the category is the increase in online purchasing/shopping.

Additionally, Australia Post has previously explained that the revenue to cost ratio for the service group is being adversely impacted by the appreciation of the Australian dollar.[26] As was the case for international inward letters, Australia Post's performance in this service group was to an extent assisted by the increase in terminal dues rates in January 2011.

Like international letters, international parcels as a group—international inward and outward parcels—did not recover its fully distributable costs in 2010–11.

4.2.4 Other services (non-reserved)

'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 asset allocations.

Revenue from 'other services' includes 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'.[27]

While revenue from 'other services' was $✂ million greater than the sum of direct and attributable costs on a non-capital-adjusted basis, it was $✂ million less than **just** direct costs on a capital-adjusted basis, meaning that 'other services' received a subsidy in 2010–11 on a capital-adjusted basis. This reflects the fact that this segment carries many assets (including many non-income-generating properties), and thus adjusting for capital had a significant impact on the measure of cost recovery.

23 Australia Post, response to ACCC information request, 5 January 2011 (confirmed by Australia Post on 9 February 2012).

24 Australia Post, response to ACCC information request, 5 January 2011 (confirmed by Australia Post on 9 February 2012).

25 Australia Post, response to ACCC information request, 5 January 2011 (confirmed by Australia Post on 9 February 2012).

26 Australia Post, response to ACCC information request, 5 January 2011 (confirmed by Australia Post on 9 February 2012).

27 Australia Post, response to ACCC information request, 20 February 2011.

4.2.5 Other letter mail services (non-reserved)

The 'other letter mail services' category contains a range of non-reserved letter services, such as Unaddressed Mail, Periodicals and Express Post.

According to Australia Post, this category absorbs a relatively high asset base due to the high volumes of these products (and hence equi-proportionate asset costs). Australia Post has stated that, compared to volume, revenue for the service group is proportionally lower as it contains some low unit revenue products such as Unaddressed Mail.[28]

When considered on a non-capital adjusted basis, this service group was a possible source of subsidy. However, when adjusted for capital the service group was a possible recipient of a subsidy. As noted above, this may largely be due to the high allocation of asset costs to this service group, and the low unit revenue from some of the products in this category.

4.2.6 Domestic reserved services

In 2010–11, revenue from small ordinary letters, small PreSort letters and large PreSort letters was below the direct and attributable costs of providing the respective services. The individual letter service trends are summarised below.

- Small ordinary letter services have failed to recover their fully distributable costs since the ACCC began monitoring cross-subsidy in 2004–05. Revenue from small ordinary letters was below direct and attributable costs in each of the years from 2005–06 to 2010–11. The recovery of direct and attributable costs has generally been decreasing since the ACCC began monitoring cross-subsidy, which may reflect the decline in letter volumes experienced in recent years.
- Small PreSort letter services failed to recover their fully distributable costs in each of the years from 2007–08 to 2010–11. Revenue from small PreSort letters had been above the direct and attributable costs of providing these services from 2004–05 to 2008–09, but in 2009–10 and in 2010–11 this service group did not recover its direct and attributable costs.
- Large PreSort letter revenues have failed to recover fully distributed costs in each of the years from 2008–09 until 2010–11. In 2009–10 and 2010–11 the service also under-recovered its direct and attributable costs.

In summary, the ACCC's cross-subsidy analysis shows that small ordinary letter services, small PreSort letter services and large PreSort letter services potentially received a subsidy in 2010–11. Australia Post's PreSort letter service cost-recovery for 2011–12 may be assisted by the bulk mail price increases that were implemented during the year.

However, being reserved services, the failure of these services to recover costs is of limited concern in the context of monitoring cross-subsidy from reserved services to non-reserved services. The ACCC's cross-subsidy assessment is focused on detecting the situation where Australia Post is able to cross-subsidise its competitive services by revenues from its monopoly services. Such a situation may damage competition in the markets in which Australia Post competes, because it is able to maintain prices in those markets below cost. This situation does not arise when the reverse form of cross-subsidy occurs (i.e. where competitive services on the whole appear to be subsidising the monopoly services).

4.3 Are reserved services a source of subsidy?

Large ordinary letters was the only reserved service group for which revenue was sufficient to recover fully distributed costs. Thus, the service group is a potential source of subsidy.

Table 3 shows the 2010–11 revenue and cost recovery for total reserved services in comparison to total non-reserved services prior to a capital adjustment (2009–10 is provided for context). In total, revenue from reserved services did not recover the fully distributed costs of providing them. In fact, revenue from reserved services did not even recover their direct and attributable costs, which suggests that the reserved services at an aggregate level were a potential recipient of a subsidy.

The fully distributed cost of reserved services is likely to underestimate the actual stand-alone cost of providing these services. In that case it is necessary to add back some of the unattributable costs that were allocated to non-reserved services (i.e. the unattributable costs that may be incurred by Australia Post whether non-reserved services were provided or not). 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 all the unattributable costs that were allocated to all other services.

28 Australia Post, response to ACCC information request, 20 February 2011.

Since reserved services revenue was substantially lower 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, on the basis of Australia Post's regulatory accounts, the reserved services were not a source of subsidy.

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

	2009–10 reserved services	2009–10 non-reserved services	2010–11 reserved services	2010–11 non-reserved services
Revenue	1783.0	3034.1	1844.1	3113.2
Direct cost	1.2	737.9	0.9	681.8
Attributable cost	1850.8	1747.9	1889.3	1874.4
Unattributable cost	149.4	230.2	25.9	124.6
Fully distributed cost	2001.4	2715.9	1916.1	2680.7
Revenue less direct cost	1781.9	2296.2	1843.2	2431.5
Revenue less direct and attributable costs	(69.0)	548.3	(46.1)	557.1
Revenue less fully distributed cost	(218.4)	318.2	(72.0)	432.5
Revenue less fully distributed cost and all other unattributable costs	(448.6)	168.7	(196.6)	406.6

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 2010–11 for all of Australia Post's business segments (prior to a capital adjustment). All non-reserved segments earned revenue sufficient to recover the fully distributed costs of providing each respective segment.[29] The parcels and logistics segment, in addition to recovering its fully distributed costs, also had revenue sufficient to also recover all the unattributable costs allocated to *all other services*.

Although reserved letter services as a whole did not provide a subsidy, it cannot be said with certainty that any other (non-reserved) service group provided a subsidy to other individual non-reserved services, such as logistics services or 'other services'. For greater certainty, further detailed information on Australia Post's shared costs would be required. However, this information is not readily available or necessary for the purposes of the current cross-subsidy report.

29 However, as noted in section 4.2.4 above, 'other services' did not recover even its direct costs when it is considered on a capital-adjusted basis.

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

	Reserved letter services	Non-reserved letter services	Parcels and logistics	Retail and financial services	Other services
Revenue	**1844.1**	**883.9**	**1434.0**	**708.5**	**86.9**
Direct cost	0.9	125.4	175.5	338.3	42.5
Attributable cost	1889.3	635.6	998.5	239.9	0.3
Unattributable cost	25.9	25.4	48.0	50.2	1.1
Fully distributed cost	**1916.1**	**786.4**	**1222.0**	**628.4**	**43.9**
Revenue less direct cost	1843.2	758.4	1258.5	370.2	44.4
Revenue less direct and attributable costs	(46.1)	122.9	260.0	130.2	44.0
Revenue less fully distributed cost	(72.0)	97.5	212.0	80.1	43.0
Revenue less fully distributed cost and all other unattributable costs	(196.6)	(27.6)	109.5	(20.2)	(106.4)

4.4 Total letter services and total mail services

Australia Post may have some degree of market power in non-reserved 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, to identify possible sources of subsidy, the ACCC has applied the stand-alone cost test to:

- total letter services
- total mail services (total letter and total parcel services).

Table 5 shows that revenue from total (reserved and non-reserved) letter services was greater than the fully distributed costs of providing these services prior to a capital adjustment.

However, as shown in Table 2, when adjusted for capital, revenue from total letter services was not sufficient to recover the direct and attributable costs of providing letter services. Thus, when considered on this basis, total letter services did not provide a subsidy. Indeed, they appear to be a recipient of a subsidy from Australia Post's total non-letter services, the revenues from which were greater than total non-letter services' fully distributed costs and all other unattributable costs.

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

	Total letter services	Total non-letter Services
Revenue	2728.0	2229.4
Direct cost	126.4	556.3
Attributable cost	2524.9	1238.8
Unattributable cost	51.3	99.2
Fully distributed cost	2702.5	1894.3
Revenue less direct cost	2601.6	1673.0
Revenue less direct and attributable costs	76.7	434.3
Revenue less fully distributed cost	25.5	335.1
Revenue less fully distributed cost and all other unattributable costs	(73.8)	283.8

Table 6 shows that, prior to a capital adjustment, revenue from aggregate letter and parcel services was greater than the fully distributed costs of providing these services and all of Australia Post's other unattributable costs. This was also the case for aggregate non-letter and non-parcel services. However, as shown in Table 1, when adjusted for the cost of capital, both areas of the business were only *potential* sources of subsidy (i.e. after the cost of capital is accounted for, both areas of the business were above the lower bound of the stand-alone cost test but below the upper bound).

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

	Total letter and total parcel services	Total non-letter and non-parcel services
Revenue	3920.8	1036.5
Direct cost	141.5	541.2
Attributable cost	3452.3	311.4
Unattributable cost	96.2	54.3
Fully distributed cost	3690.0	906.9
Revenue less direct cost	3779.4	495.3
Revenue less direct and attributable costs	327.1	183.9
Revenue less fully distributed cost	230.8	129.7
Revenue less fully distributed cost and all other unattributable costs	176.6	33.4

5 Conclusion

The ACCC is satisfied that, on the basis of Australia Post's regulatory accounts, reserved services (as a whole) were not a source of subsidy in 2010–11. Rather they were a possible recipient of a subsidy from non-reserved services.

This outcome is not a concern in terms of cross-subsidy testing. However, it does suggest that, on the basis of its 2010–11 accounting data and cost allocations, Australia Post has a strong market position in certain non-reserved areas (such as the growing area of parcels). These services are able to subsidise the services that are subject to Australia Post's statutory monopoly (i.e. reserved letter services).

The analysis in this report also indicates that, while certain non-reserved services received a subsidy, the source of their subsidy is the other non-reserved services, not reserved services. These results are consistent with those of past ACCC cross-subsidy reports.

5.1 Did reserved services subsidise non-reserved services?

Australia Post's regulatory accounts for 2010–11 do not provide evidence of cross-subsidy from reserved services to non-reserved services. Revenue from reserved services was not sufficient to cover the lower or upper bound of the stand-alone costs test, which needs to be met for a service to be a possible source of subsidy.

Indeed, in 2010–11 Australia Post's reserved services were a possible *recipient* of a subsidy, because, as a whole, reserved services did not recover their direct and attributable costs (the upper bound of the incremental cost test).

In this case, even where certain non-reserved services (e.g. logistics, 'other services') received a subsidy, these must have been subsidised by other non-reserved services (e.g. the overall parcels and logistics segment was a non-reserved source of subsidy).

Furthermore, revenue from Australia Post's non-reserved services was greater than the upper bound of the stand-alone cost of providing non-reserved services. This means that non-reserved services as a whole are a source of subsidy.

5.2 Did any service group receive a subsidy?

In respect of individual service groups, revenue from 'Logistics services' was less than the direct cost of providing those services in 2010–11. This non-reserved service group has received a subsidy in every year since the ACCC began monitoring cross-subsidy in 2004–05. As of October 2011, DHL Supply Chain (Australia) has acquired the operating assets of Post Logistics Australasia, the major component of the 'logistics services' service group.

'Other services', a category used by Australia Post that relates to non-product-specific operations of Australia Post's business, also received a subsidy in 2010–11, when considered on a capital-adjusted basis. When considered on a non-capital-adjusted basis, 'other services' was not a recipient of a subsidy–it was a potential source of subsidy.

These individual subsidies are not a significant area of concern for the ACCC in respect of potential cross-subsidy from reserved services to non-reserved services because the source of the subsidies for these services was other non-reserved service revenue.

Six other services may also have received a subsidy in 2010–11.

Revenue from each of international inward letters, international inward parcels and 'other letter mail services' (all non-reserved services) was less than the respective direct and attributable costs of providing these services.

Revenue from three reserved services—small ordinary letters, small PreSort letters and large PreSort letters—was less than their respective direct and attributable costs.

Revenue from these six services did recover their respective direct costs. 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 only likely to be obtained by conducting a broader cost review.

However, as these services are either reserved or—in the case of international inward letters and international inward parcels weighing less than 250 grams—not subject to competition, this is not a significant area of concern for the ACCC in respect of potential cross-subsidy from reserved services to non-reserved services.

Appendix A Accounting policies and cost allocation

The results of the cross-subsidy assessment will be affected by:

- the method of allocating costs to service groups (section A.1)
- Australia Post's accounting policies (section A.2)

A.1 Cost allocation

Australia Post allocates revenues, costs, and assets between service groups using its activity-based allocation model.

A.1.1 Australia Post's cost allocation system

Australia Post is required by the RAF to provide revenue and cost information (regulatory accounts) disaggregated by 18 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 (for example, cost of goods sold can be directly attributed to products sold in Australia Post's retail stores). Due to the shared and labour-intensive nature of Australia Post's operations, it has very few direct account items relating to its mail services (for example, most of the delivery costs would be shared by a number of mail and small parcel services, and are attributed to the product by the cost allocation methodology).

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. For example, the labour costs associated with processing and delivering letters can be described as attributable, as these costs are attributed to particular mail and parcel services based on their revenues, volumes, and the relative effort of delivery/processing the product.

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 some factor (such as, for example, relative use).

A.1.2 ACCC view on Australia Post's cost allocation methodology

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 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—in order for the ACCC to be able to '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, there has been an improvement in the transparency of Australia Post's regulatory accounts, and Australia Post has also addressed a number of the ACCC's 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 Australia Post had addressed the ACCC's issues and concerns that were raised in the 2008 review.[30]

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

However, as stated by the ACCC in its decision on Australia Post's 2010 price notification, 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.[31] The ACCC and Australia Post agreed in 2011 that the current approach to assessing prices, including the allocation of costs, needs to be re-examined.[32] Such an examination may have an impact on future ACCC cross-subsidy assessments.

A.2 Australia Post's accounting policies

Australia Post's 2010–11 regulatory accounts have been prepared to be consistent with, and are reconcilable with, the company's annual report.[33] The regulatory accounts are consistent with Australian International Financial Accounting Standards (AIFRS). [34]

A.2.1 Accounting for a return on capital

In conducting the tests discussed in Chapter 4 of the report, the ACCC used a 'capital-adjusted' statement of financial performance.[35] The ACCC has previously stated that it believes a return on capital is a legitimate cost to business.[36] As part of the ACCC's cross-subsidy assessment the cost of capital is included in the cross-subsidy tests. 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 a non-capital-adjusted basis and found that the results are generally robust whether capital adjustment is made or not. That is, adding a return on capital as a cost does not generally affect whether there is a subsidy, but only the magnitude of the subsidy.

The ACCC does not endorse Australia Post's rate of return on capital (WACC) proposed in its statement of WACC either for the purposes of cross-subsidy analysis or for other purposes—such as a price notification. Nor does the ACCC endorse the various input parameters used by Australia Post in its statement of WACC. The ACCC notes that a lower WACC, such as that used in the ACCC's decision on the 2010 price notification, does not have a material effect on the results of the cross-subsidy tests in this report.

While the conclusions presented in this report are generally presented on a capital-adjusted basis, 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, and recognises Australia Post's claim of confidentiality over the capital employed figures.

A.2.2 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 2009–10 regulatory accounts and the 2010–11 regulatory accounts. There were no material changes to the accounting policies, although Australia Post advised that in December 2010 a new payment gateway company 'SecurePay' had been acquired.

SecurePay Acquisition

SecurePay is an e-commerce gateway provider in Australia offering commercial organisations, utilities, local government and e-merchants secure Business to Business and Business to Consumer payment services via the internet, phone, or customer software applications.

Its revenues and costs have been added to 'Other services' in Australia Post's Regulatory Accounts.

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

32 ACCC, final decision, Australian Postal Corporation 2011 price notification for bulk mail services, June 2011, p. 5.

33 However, the one exception is that, as noted at A.2.2 below, Australia Post continues to report a proportion of international inward mail as 'reserved' in its annual reports, as it reports it as part of its CSO cost. Australia Post reports all international inward mail as non-reserved in the regulatory accounts.

34 Australia Post annual report 2010–11, p. 65. 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.

35 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 18 service groups.

36 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.

Inward International Mail

In 2010, the ACCC advised Australia Post that its view is that all inward international mail is non-reserved (prior to 2009–10 Australia Post had been reporting mail weighing under 250 grams as 'reserved').

Australia Post has made the necessary adjustments to reflect inward international mail carried under the UPU convention as a non-reserved service in its Regulatory Accounts. Australia Post continues to report a proportion of international inward mail as 'reserved' in its annual reports, as it reports it as part of its CSO cost.

For the purpose of the ACCC's cross-subsidy reporting (from 2009–10), all international inward mail is being classified as non-reserved. This is because international inward mail weighing up to 250 grams carried by Australia Post falls under the exception to 'reserved services' under subsection 30(1)(p) of the APCA, while international inward mail weighing more than 250 grams is non-reserved because it falls under the general exception to reserved services in subsection 30(1)(a).

Whilst the carriage by Australia Post of inward international letters and parcels weighing less than 250 grams is not a 'reserved service' in a legal sense, Australia Post has been nominated by the Government to fulfil its obligations under the Universal Postal Union Convention, including the delivery of incoming international letters and parcels. Thus, in practice:

- Australia Post is currently the only operator able to carry international inward mail and parcels via the Universal Postal Union mechanism courtesy of the convention, and
- other operators are generally prohibited by Australia Post's statutory monopoly from delivering mail weighing up to 250 grams from overseas[37], but they are able to deliver mail weighing above 250 grams from overseas (outside the ambit of the Universal Postal Union).

37 This is because Australia Post has the exclusive right to deliver mail weighing up to 250 grams (subject to specific exceptions).

Appendix B Regulatory accounting framework information not claimed as confidential

Schedule 1: Service group definitions

Schedule 1(a): Reserved service group descriptions

Segment	Service group	Product/service	Description
Letters and associated	**Small letters ordinary**	SL—ordinary—stamped	Small Letters include enveloped mail, lettersheets, prestamped envelopes and unenclosed postcards no larger than 130 mm x 240 mm, no thicker than 5 mm and no heavier than 250 gms.
		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—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.
	Small letters PreSort	SL—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.
		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 ATO. Normal delivery standards apply.
		SL—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.
		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 ATO. Delivery standards up to three days longer than Regular.

Segment	Service group	Product/service	Description
	Large letters ordinary	LL—ordinary—stamped (0–250 g)	Large Letters include enveloped mail, prestamped 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 gms, 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—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.
	Large letters PreSort	LL—regular PreSort (0–250 g)	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.
		LL—off-peak PreSort (0–250 g)	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.

Schedule 1(b): Non-reserved service group descriptions

Segment	Service group	Product/service description	Description
Letters and associated	**Non-reserved large letters ordinary**	LL—ordinary (250–500 g)	Large Letters include enveloped mail, prestamped 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 gms, 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 gms before lodgment 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 gms before lodgment, and comply with relevant mailing conditions. Delayed delivery standards apply.

Segment	Service group	Product/service description	Description
	International inward letters	non-reserved inward international letter services	"—This service relates to the receipt, handling, delivery and on-forwarding of inbound international letter and related mail articles within Australia. Australia Post receives international incoming mail in two ways: Dispatched to Australia in accordance with the arrangements of the Universal Postal Union (UPU); or transported to Australia as cargo and lodged with Australia Post under the appropriate domestic letter service. —Under the UPU convention, Australia Post has been nominated by the government to fulfil its obligations to deliver incoming international letters exchanged under the convention. Australia Post has the exclusive right to the receipt, handling, delivery and on-forwarding of inbound international letter and related mail articles within Australia to mail dispatched under the UPU convention."
	International mail (outward)—letters	outward international letter services	All letter and related services lodged in Australia for delivery to overseas addressees, including FX adjustments.
	Other 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 x20 mm and up to 1 kg for delivery within Australia.
		registered post fees	Additional fees for service includes 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 grams 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.
		address post	The provision of 'change of address' data to customers wishing to update their mailing lists.

Segment	Service group	Product/service description	Description
		redirection fees	The provision of mail redirection service (both short term 'hold' and permanent on-forwarding) for both private individuals and businesses.
		eLetter solutions	This service is provided for statements, invoices and advertising pieces. eLetter Solutions related services include consulting, analysis and design, and archival and retrieval.
Parcels and logistics	**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
	International inward parcels	non-reserved inward international parcel services	The carriage and delivery within Australia of incoming international parcels and related services that are outside the scope of reserved service, including FX adjustments.
	International mail (outward)—parcels	outward international parcel services	All parcel and related services lodged in Australia for delivery to overseas addresses.
Retail and agency	**Retail**	philatelic	The sale of stamps, related product 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, and ID&V services.
		other agency	The provision of bill payment and related services.
Other 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)
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 contact 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 etc).
4–4	Depreciation & 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.

Account Code	Account Item	Description
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.
4–10	Other	All other costs not already included.

Schedule 6: List of account items for fixed assets

Account Code	Account Item	Description
NON-CURRENT ASSETS		
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 & 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.

Account Code	Account Item	Description
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 2010–11 ($ million)

RESERVED	Notes			2		5	
	Opening Tyr	Addit.	Retire	Transfer	Revalue	Deprec.	Closing
Land	283.8	0.0	–0.2	3.9	12.2	–	299.7
Buildings	242.4	6.3	–0.4	14.1	0.6	–12.5	250.5
Fitout	36.6	2.1	–0.1	–0.5	–	–6.5	31.6
Motor Vehicles	65.8	19.6	–4.3	–0.7	–	–14.8	65.7
Mail Handling Plant	144.1	1.2	–0.2	6.1	–	–18.5	132.7
Other Plant & Equipment	30.2	14.5	–0.5	–5.0	–20.0	–10.5	8.6
Office Equipment	13.1	0.3	–0.1	–0.0	–	–1.6	11.7
Counter Equipment/EPOS	5.5	0.0	–0.0	0.5	–	–2.3	3.7
Software	52.6	36.1	–3.1	54.7	–	–21.9	118.3
Intangible[s]	0.4	–	–	–0.4	–	–	–
TOTAL RESERVED	**874.5**	**80.1**	**–8.8**	**72.8**	**–7.3**	**–88.6**	922.8

NON RESERVED								
		Opening Tyr	Addit.	Retire	Transfer	Revalue	Deprec.	Closing
Land		586.2	4.1	–0.2	–3.9	16.7	–	602.8
Buildings		403.0	7.6	–2.9	1.6	–25.9	–19.3	364.1
Fitout		53.2	4.5	–2.2	1.1	–	–11.9	44.7
Motor Vehicles		54.8	13.1	–3.1	0.9	–	–10.7	55.1
Mail Handling Plant		91.9	11.8	–15.8	2.6	–0.8	–15.4	74.3
Other Plant & Equipment		48.7	13.1	–5.7	41.8	–	–14.0	83.8
Office Equipment		17.4	0.5	–0.5	0.5	–	–2.0	15.9
Counter Equipment/EPOS		9.9	0.1	–0.1	1.5	–	–4.4	7.0
Software		68.9	47.2	–16.5	34.4	–	–30.9	103.1
Intangibles	4	12.0	44.2	–2.5	0.2	–	–0.8	53.1
TOTAL NON–RESERVED		**1346.0**	**146.1**	**–49.5**	**80.7**	**–10.0**	**–109.4**	**1403.8**
Land		34.9	–	–	–34.9	–	–	–
Assets Under Construction	3	144.2	45.5	–	–118.6	–	–	71.0
UNALLOCATED		**179.0**	**45.5**	**–**	**–153.5**	**–**	**–**	**71.0**
TOTAL FIXED ASSETS	1	**2399.6**	**271.6**	**–58.3**	**–**	**–17.3**	**–197.9**	**2397.6**

Notes:

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 writedown 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	1447.9	Total posted ordinary small letters
Total—PreSort small letters	1980.1	Total posted PreSort small letters
Total—ordinary large letters	170.0	Total posted reserved and non-reserved ordinary large letters
Total—PreSort large letters	140.7	Total posted reserved and non-reserved PreSort large letters