



**Supplementary Information to
Australia Post's draft price notification
October 2022**

On 11 August 2022, Australia Post provided the Australian Competition and Consumer Commission (ACCC) with a draft price notification proposing to increase the price of reserved ordinary letters delivered to the regular delivery timetable.

The proposed increases include a 10-cent increase to the rate for an ordinary small letter delivered to the regular timetable (the basic postage rate).

On 25 August 2022, the ACCC released a Consultation Paper inviting submissions from interested parties on Australia Post's proposed prices. The closing date for submissions was 23 September 2022.

The ACCC received a total of 10 submissions which included six from members of the public.

In reviewing the submissions, Australia Post has provided the following information to assist the ACCC in its consideration of the draft price notification.

Concession stamps

In 2014, to protect vulnerable members of the community from future stamp price increases, Australia Post introduced a concession stamp.

Up to 50 concession stamps can be purchased each year by holders of a free Australia Post Concession Account.

To be eligible for a free Australia Post Concession Account a person needs to hold one of the following government concession cards:

- Pensioner Concession Card
- Health Care Card
- Commonwealth Seniors Health Card
- Department of Veterans' Affairs Card
- Veterans' Repatriation Health Card

To continue to support the vulnerable members of the community Australia Post has held the rate of the concession stamp at just \$3 for a booklet of five stamps: effectively 60c per stamp since the stamp was introduced in 2014.

Furthermore, Australia Post has also held the seasonal greeting card stamp rate at just 65c for a small letter¹ since 2014 as we recognise this is a time when private consumers typically send more mail.

As shown in the following table, despite there being no change to its price, the volume of concession stamps has continued to decline.

FY17	FY18	FY19	FY20	FY21	FY22
25m	22.9m	20.7m	19.9m	17.9m	16m

¹ Available during November and December.

When the annual volume is broken down by month, quite clearly purchases peak during November and December indicating that concession stamps are being purchased to send seasonal greeting cards.

Concession Stamps Monthly Volumes (m's)	Actuals												Year
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
FY17	1.6	1.8	1.7	1.9	3.5	5.8	1.2	1.1	1.5	1.6	1.8	1.6	25.0
FY18	1.5	1.6	1.5	1.9	3.3	5.2	1.2	1.1	1.3	1.4	1.5	1.3	22.9
FY19	1.4	1.4	1.3	1.7	3.0	4.8	1.1	1.0	1.1	1.3	1.4	1.2	20.7
FY20	1.2	1.3	1.2	1.5	2.7	4.2	1.0	0.9	1.2	1.8	1.5	1.4	19.9
FY21	1.3	1.4	1.4	1.7	2.4	3.6	0.9	0.8	1.1	1.0	1.1	1.1	17.9
FY22	1.1	1.3	1.3	1.4	2.2	3.3	0.8	0.8	0.9	1.0	1.0	1.0	16.0

In June 2022, a nationally representative cohort of the Australian community was independently surveyed to understand their awareness and attitude to Australia Post and a potential stamp price increase².

The survey found that of the 57% of consumers that send letters for personal reasons the average consumer sent 15 letters per year.

Interestingly while the average was 15 the median was only six letters per year.

Noting this and that around a third of concession stamps are purchased during November and December (when the seasonal greeting card option is available), Australia Post believes that the ability to purchase up to 50 concession stamps per annum is an appropriate level for the vast majority of customers.

Delivery frequency

The Australian Postal Corporation (Performance Standards) Regulations 2019 require Australia Post to service:

- a) Daily (except on a Saturday, a Sunday or a public holiday in the place where the delivery point is located)—98% of all delivery points; and
- b) at least 2 days each week—99.7% of all delivery points.

To 'service' in this context means to be available to visit the delivery point and, if there is a postal article addressed to the delivery point, deliver the article.

During COVID-19 Australia Post was managing significant operational challenges compounded by unprecedented parcel volumes.

In response to these challenges, temporary regulatory relief allowed Australia Post to service delivery points every second day³ in metropolitan areas instead of daily. Articles addressed to a post office box continued to be delivered to each post office box address every business day.

² Community Sentiment Research, Exploring reactions to a potential stamp price increase, KPMG Customer Intelligence, July 2022.

³ Except on a Saturday, a Sunday or a public holiday in the place where the delivery point is located.

At the expiration of the temporary regulatory relief, from July 2021 facilities and delivery rounds operating under this alternative delivery model were progressively rolled back to five day a week delivery.

As part of the rollback the while the number of metropolitan postie delivery rounds was reduced, addresses that prior to temporary regulatory relief received five day week delivery had it reinstated.

Delivery performance

The Australia Post 2022 Annual Report identifies that:

- In FY22, despite consistently exceeding the standard in the second half of the year, over the 12 months Australia Post fell slightly short of its on-time letters delivery performance standard as a result of significant ongoing impacts on Australia Post's delivery network as a result of COVID-19; and
- on daily letters delivery frequency, while delivery frequency was consistently exceeded in the last quarter, the annual result reflects the progressive return to five day a week letter delivery (following the expiry on 30 June 2021, of Temporary Regulatory Relief) combined with continuing COVID-19 operational restrictions and the ongoing growth in the number of delivery points.

A Service Improvement Plan has been developed and has been shared with the ACCC.

Cost allocation

Australia Post uses an Enterprise Profit Model (**EPM**) to calculate the operational cost of 'Reserved' and 'Non-Reserved' services provided by Australia Post. The model is a fully absorbed costing model and allocates costs to products and services via the following guiding principles:

- All products and services are to be charged appropriately with the costs of the enterprise.
- Activity Based Costing is used as the appropriate cost allocation methodology.
- The Activity Based Costing model identifies resources costs from the general ledger and assigns these costs to activities, these activities are then assigned to products and services primarily according to consumption.
- Direct attribution of costs to products is conducted, wherever possible.
- Miscellaneous revenues, unrelated to a product or service, are treated as miscellaneous, with any associated costs allocated to them.

Australia Post continually reviews its EPM in line with business changes to ensure it reflects the fundamentals of the business. This includes the allocation of non-operational (e.g., support) costs to the appropriate operational functional areas, allocation of operational costs reflective of operational procedures change.

As noted in Australia Post's draft notification of August 2022, Australia Post undertook a detailed 'Van Operations' survey that surveyed each van operations site across Australia.

The outcome of the Van Operations update, and the other Transport (interstate linehaul and interstate air transport) resulted in a shift in costs away from reserved letters.