Supporting Information to Australia Post's Price Notification

February 2024

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1. Executive Summary

The challenges Australia Post currently faces in providing the letter service are clearly evident in numerous other counties. Senders and receivers are moving their physical communications to an ever-increasing range of digital offerings. At the same time, the number of delivery points that Australia Post must service continues to grow (by around 200,000 per year), a challenge which is further compounded by considerable input cost pressures.

In 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, which included a 10-cent increase to the basic postage rate (**BPR**).

Following the ACCC's assessment of the proposal, release of its View and the provision by Australia Post of a formal notification on 18 November 2022, in December 2022, the ACCC released its decision to not object to Australia Post's price notification. The price changes that were the subject of the notification took effect from 3 January 2023 along with a range of business letter product price changes.

At that time, Australia Post believed the proposed prices were appropriate and justified as they would assist in improving enterprise profitability without extensive price increases while reviewing options for broader letter reform to build a sustainable letters business.

In March 2023, recognising that actions will need to be taken to enable Australia Post to continue meeting the needs of contemporary Australia, the Australian Government launched a discussion paper and consultation process to modernise postal services and support the long-term financial sustainability of the business.

Although the outcome from the Government's modernisation consultation and any associated potential regulatory reforms is unknown, Australia Post is proposing an increase to the price of reserved ordinary letters effective from January 2024.

As part of modernisation, Australia Post is proposing a long-term pricing path which will provide customers and Australia Post with pricing certainty and achieve a pricing structure that better aligns prices with efficient costs.

This working paper proposes an increase to the BPR of 30 cents (25%) to apply regardless of the modernisation outcome, and is founded on Australia Post's pricing objectives of:

- Ensuring the letter service remains accessible to all Australians; and
- Protecting the vulnerable members of the community from stamp price increases.

While the scope of this working paper is limited to proposed changes to Australia Post's reserved ordinary letter service, subject to the outcome of this proposal, there will also be price changes to other domestic letter products from January 2024.

To support the ACCC in its assessment of these price changes, financial information relating to the 2022/23 financial year (actuals) and 2023/24-2025/26 financial years (forecast) are provided.

Under the post-tax revenue model (**PTRM**) used by the ACCC in Australia Post's previous price notifications, even with the proposed price changes, by 2025/26 Australia Post's:

- Reserved ordinary letter service is forecast to under recover by $175m; and
- Domestic letter service is forecast to under recover by $✂m.

2. Introduction

The challenge of how to continue providing a universal letter service in an environment of ongoing decline from a largely fixed cost network base is not unique to Australia Post. Operators worldwide are following a balanced approach of restructuring their operations to lower cost, coupled with appropriate levels of price increases.

Australia Post must continue to evolve as its customers and the markets it operates in evolve and change. A refreshed strategy and priorities will ensure Australia Post remains competitive and relevant, and able to respond to external factors including:

- **Economic and political forces such as residual pandemic impacts**, inflation, global supply chain pressures and a myriad of other factors.
- **Acceleration of the eCommerce market,** which has increased significantly in size over the last two years, along with increasing competition through on-demand, crowd-sourced providers, and global competitors.
- **Ongoing digitisation,** which is continuing to drive declines in letter volumes. As people continue to transition to digital banking, bill payment and government services, Australia Post is also seeing a drop in the usage of some post office services.
- **Changing customer and community expectations**, with customers seeking faster services, simpler processes, a seamless customer experiences and an expectation that companies make a positive contribution to the environment.

2.1. Australia Post's obligations

In addition to those external factors, Australia Post's regulatory and Community Service Obligations **(CSOs)** also factor into its strategic decisions.

Under the provisions of the Australian Postal Corporation Act, 1989 **(APC Act)** Australia Post's principal function is the supply of postal services within Australia and between Australia and places outside Australia.

In performing its legislated functions, Australia Post has obligations summarised as follows:

- A Commercial Obligation – to perform its functions, as far as practicable, in a manner consistent with sound commercial practice;
- Community Service Obligations – to supply a letter service that is 'reasonably accessible' to all Australians; and
- General Governmental Obligations – to perform its functions consistent with general governmental policies of which the directors are notified; directions given by the Minister under section 49; and Australia's obligations under any convention.

In addition to these obligations, as a Government Business Enterprise, the expectation is that Australia Post will operate and price efficiently and earn a commercial rate of return. Section 15(1)(c) of the *Public Governance, Performance and Accountability Act 2013* (the **PGPA Act**) requires the Board to govern the entity in a way that promotes its financial stability.

This means that while it is incumbent on Australia Post (from a community service perspective) to continue delivering the nation's physical letters service, it is also necessary (from a commercial perspective) to secure the sustainable delivery of this declining service while continuing to meet the requirement of its CSO.

Australia Post does not receive financial support from the Government to assist in meeting its CSO and since 2007/08, revenue from the reserved service has not been sufficient to meet this cost. In 2022/23 the estimated cost of the CSO was $442.2 million.

3. Modernisation of Australia Post

3.1. Government Discussion Paper

On 2 March 2023 the Australian Government launched a discussion paper and consultation process to modernise postal services and support the long-term financial sustainability of Australia Post.

The Government considers that amending letter delivery Performance Standards to reflect current and future usage and changing letter pricing to reflect the actual cost to Australia Post of providing letter services, can support Australia Post's financial sustainability so that it can continue to invest in the broad range of postal services required by the Australian community.

The Government proposes that modernisation of the postal service adheres to the following principles:

- Australia Post remaining in full public ownership, providing a universal and equitable service that meets the needs of Australian people and businesses;
- Australia Post remaining financially sustainable, and invest in its networks, services and people to support improved national productivity and supply chain resilience;
- Postal services that support Australia's digital economy, particularly as a critical enabler of the growing eCommerce market;
- Providing appropriate coverage of the post office network, particularly in regional and rural areas, and supporting LPO and CPA financial sustainability; and
- Reducing Australia Post's operating cost in delivering regulated letter services, freeing up delivery and processing resources to support parcels delivery to respond to increasing demand and consumer expectations.

In considering changes, the Government committed to a comprehensive consultation process and business, unions, government, licensees, and other stakeholders working together to find common ground.

3.2. Stakeholder engagement – Australia Post

Following the launch of the discussion paper on 2 March, Australia Post communicated with a broad range of stakeholders to advise them of the discussion paper and that Australia Post strongly welcomed the move, which acknowledged the structural and financial challenges faced by Australia Post.

Stakeholder groups contacted by Australia Post represented:

- Community – community and not-for-profit groups representing the public, senior citizens, underprivileged and regional and rural communities.
- Customers – major corporations, businesses (small and medium enterprise owners), as well as business and industry representative bodies.
- Workforce – employees, unions, and Licensed Post Office operators.
- Government – Shareholder Ministers, parliamentarians and their advisors, as well as relevant departmental officials.

Furthermore, during April 2023, Australia Post's Group CEO & MD and senior executives, hosted roundtable discussions with small groups of enterprise customers, online retailers, and mail customers around Modernisation.

At these discussions, the challenges facing Australia Post and why Australia Post needs to modernise were communicated and attendees were able to ask questions about Australia Post's plans and share any concerns for them and/or their customers.

The conversations within each group were robust and attendees clearly articulated what they expect of Australia Post for the future. There was a general sense they wanted Australia Post to be sustainable in the future, to support them in providing services to their own customers, and a number of them said they would be contributing to the Government's public consultation process.

Enterprise customers and online retailers want Australia Post to have the freedom to invest more in the parcels business, which is where they see the future. And the mail customers want us to continue to invest in mail, though are worried that price and frequency of deliveries could impact their core business.

3.3. Australia Post's submission to the discussion paper

The eight-week submission process closed on 27 April 2023. Although not yet publicly available[1], Australia Post's response states that the letter service is no longer sustainable, and that there needs to be modernisation, both in its operations and in the postal service regulatory framework.

It notes that in the past ten to fifteen years postal operators have sought to radically reform their operations, from an internal efficiency perspective as well as seeking changes to their overall regulatory frameworks. For example:

- Sweden – introduced regulatory changes in 2018 to trial and then introduced an alternating day letter delivery model.
- New Zealand – in 2013 amended its Deed of Understanding to allow for changes (delivery every second day in metro areas) to the delivery model to improve the overall efficiency of its service in the face of mail decline.
- Italy – in 2015 introduced regulatory changes to allow for reduced delivery frequency for 25 per cent of the population, and the introduction of a flexible delivery model for parcels and letters based on population density and volumes.

Australia Post believes now is the time to move the baseline of its postal services in pricing and delivery frequency to be more reflective of the contemporary international approach.

- **Letter pricing** – a simplified regulatory approach to letter pricing oversight to ensure it can be adjusted efficiently as mail volumes and efficiencies of scale decline and the number of delivery points increase.
- **Letter delivery** – updating how we deliver to drive greater efficiency and use our resources more effectively, while ensuring we continue to meet the changing needs of the community and recognising the important role of postal delivery officers.
- **Retail network** – ensuring that our physical presence across the country has the flexibility to reflect the changing expectations and interactions of customers in physical stores, accessing services and shopping in an increasingly digital world.

[1] The Department of Infrastructure, Transport, Regional Development, Communications and the Arts is responsible for making a decision of when and how to publish submissions in response to the Government's Discussion Paper. We expect that the Department will publish Australia Post's submission, and the submissions of other interested stakeholders, shortly.

3.4. Next steps

- Australia Post will continue to support the Government as required as it finalises its review.
- Once the outcome of the review is known we will look to develop a longer-term BPR price path, which (under the current Declaration) will require a further notification to the ACCC.

4. Industry engagement

Formed in March 2016, the Mail Industry Working Group (**MIWG**), comprises representatives from the printing industry, direct marketing and fundraising industry associations, envelope suppliers and postage meter suppliers.

The primary objective of the MIWG is to focus on initiatives to sustain mail volumes and maintain the relevance of addressed mail. The meetings provide a forum for consultation and idea sharing in an open and transparent way, on areas of mutual interest across the mailing industry including industry promotion and innovation, mail product developments and changes and supply chain efficiencies.

The MIWG also provides attendees with the opportunity to gain a broader perspective of the many factors influencing the postal sector, cost efficiency programs, and upcoming mail developments and initiatives.

In forming the MIWG, it was also recognised that the industry associations and supplier groups would continue to meet with Australia Post on a one-on-one basis to pursue initiatives specific to their sector or organisation.

Australia Post continues to meet with the following groups to work together on initiatives to promote the value of mail and / or specific development or productivity opportunities:

- The Fundraising Institute Australia (**FIA**);
- The Print and Visual Communications Association (**PVCA**);[2]
- Envelope suppliers;
- Postage meter suppliers; and
- Mailhouses.

4.1. Industry campaigns

Australia Post promotes and supports the mail channel at an industry and customer level through sponsorship of industry developed campaigns, undertaking its own promotion activity, and providing tools to maximise use of the channel.

Australia Post is a major sponsor of PVCA, an industry association that develops and runs campaigns that promote and protect the use of print, paper, and mail.

PVCA merged with The Real Media Collective (**TRMC**) in 2022. TRMC was originally formed in 2018 under a merger of the Australasian Catalogue Association, Australasian Paper Industry Association and Two Sides Australia Limited. PVCA continues to run three major campaigns developed by TRMC:

- Keep Me Posted – advocates for consumers to receive bills by their preferred channel (including though the mail) without being charged a fee;
- Value of Paper and Print – develops and distributes research, case studies and articles that show the effectiveness of businesses using paper-based media including mail for their marketing and communication activity; and

[2] The Print and Visual Communications Association (PVCA) merged with The Real Media Collective (TRMC) with the merged entity continuing as PVCA. In June 2023 the PVCA shareholders approved a name change to The Visual Media Association, which is currently going through the formal approval processes

- Two Sides – challenges greenwashing by providing relevant evidence and requesting organisations correct any incorrect claims they make about the environmental impacts of paper and mail.

Australia Post also supports industry award events such as The Real Media Awards to ensure catalogues and mail remain part of the multi-channel marketing conversation.

4.2. Australia Post

In addition to working with industry partners, Australia Post continues to undertake activities to promote and incentivise the use of mail as well as reviewing the product offer to ensure it remains relevant. Recent activities include:

- Sector specific promotions for:
    - Fundraising and charities: since 2020, Australia Post has offered a seasonal incentive to fundraisers who use Charity Mail which provides a rebate for increasing usage.
    - Publishing sector: during the COVID pandemic, Australia Post introduced a temporary relaxation of Print Post usage conditions to encourage publishers to develop new publications for their existing subscriber base.
    - Marketers: in April 2022 Australia Post launched a first-time user incentive to encourage marketers, who had not previously, to trial mail for their marketing or promotional activity.
- Promo Post – launched 1 June 2015, is a service specifically for addressed promotional mail delivered to the Regular delivery timetable, which provides lower prices than PreSort. It has been widely used across all major sectors and in FY23 represented 12.2% of total PreSort volume and 9.1% of total PreSort revenue.
- Acquisition Mail – following a review that considered the revenue, customer base and availability of suitable product alternatives, the Acquisition Mail price points will be withdrawn in January 2024. Importantly the tools (provided in Campaign Targeter) used by Acquisition Mail customers will continue to be offered.

5. Proposed Pricing

Australia Post's reserved ordinary letter service only represents around 6% of reserved letter service volume and just 5% of the domestic letter service volume.

The prices proposed in this working paper provide detail on proposed pricing for reserved ordinary letter services effective January 2024.

Table 1 details the proposed changes to reserved ordinary letter prices. Changes to other domestic letter products (including business letter services) are provided at Appendix 1.

The financial impact of the January 2024 proposed prices is provided at Appendix 2.

Table 1 – Proposed prices – Reserved ordinary letters

	Current Price	**Proposed Price**
		Jan 2024
Ordinary small letter	$1.20	$1.50
Ordinary large letter		
Up to 125g	$2.40	$3.00
Over 125g up to 250g	$3.60	$4.50

5.1. Impact of the proposed January 2024 pricing

5.1.1. Consumers

As the average consumer sends around 15[3] letters per year, for consumers that are either not eligible for, or have not taken up the concession stamp offer, the impact of the price increase will be between $0.00 and $4.50 per year, depending on the proportion of letters that are sent that are seasonal greeting cards.

As part of the overall pricing package:

- The concession stamp will continue to be offered to eligible Australians at the 2014 rate ($3 for a booklet of five stamps).
- The seasonal greeting card rate will also continue to be offered at the 2014 rate (65 cents for a small letter).

5.1.2. Small to medium businesses

Business and Government customers have been very clear they want transparency and predictability around price changes. Providing notice, or at a minimum guidance, of future price changes allows customers to plan for changes financially and minimise disruption.

To address this issue, as noted earlier, Australia Post will propose a long-term price path for changes to its reserved letter prices, which will take account of the outcome of the Government's modernisation consultation and any regulatory reform, and will also consider prevailing market conditions at that time.

Business letter prices are set to:

- Provide an appropriate incentive to customers to prepare and lodge letters that can be efficiently machine processed; and
- Minimise the impact on more price elastic products.

[3] KPMG Community Sentiment Research, July 2022

The volume of letters sent by SMBs varies greatly as does the service they use. SMBs who are more active in sending letters, typically use our metered / imprint service. Eligibility for the metered / imprint service does require the customer to pay for postage using an approved postage meter or an Australia Post business charge account, however, there are no minimum volume requirements.

In reviewing pricing for the metered / imprint service we are mindful of this cohort's preference for moderate, regular increases as opposed to larger less frequent increases.

As part of the proposed price changes, the small letter metered / imprint rate will increase from $1.19 to $1.49 (an increase of 30 cents or 25%). This compares to the 30 cents, or 25%, increase for those SMBs (typically smaller users) who may use postage stamps.

Noting the impact will vary based on the service used, the following information shows the potential average impact on SMBs from the proposed price changes.

KPMG Community Sentiment Report (July 2022)

SMBs identified in this report align to the ABS definition (19 or fewer employees).

Within the Report, slide 12 indicates that 41% of businesses sampled send letters and on average this is ~68 letters per year. This would equate to an impact of $20.40 per year regardless of whether a business purchases and uses stamps or accesses the metered / imprint rate.

Australia Post analysis (SMB charge account customers)

Australia Post does not use the ABS classification of SMB as it classifies SMBs based on mail spend and geographic location (independent of spend). Using this grouping there are 64,823 customers, however, 64,141 of these customers spend up to $50,000 per annum[4].

The below table breaks spend into three levels. To estimate the average annual impact, we have used the weighted average impact of the proposed addressed mail price increases (20.7%).

Table 2 - SMB spend

Annual Spend 2021/22	No. customers	Average Annual Spend (GST inc)	Average impact (GST inc)
Up to $1,000	50,184	$170	$38
$1,001 to $5,000	9,644	$2.518	$562
$5,001 to $50,000	4,313	$15,051	$3,356
Total up to $50,000	64,141	$1,524	$340

[4] In 2021/22 financial year.

5.2. Australia's increases to the basic postage rate have been modest

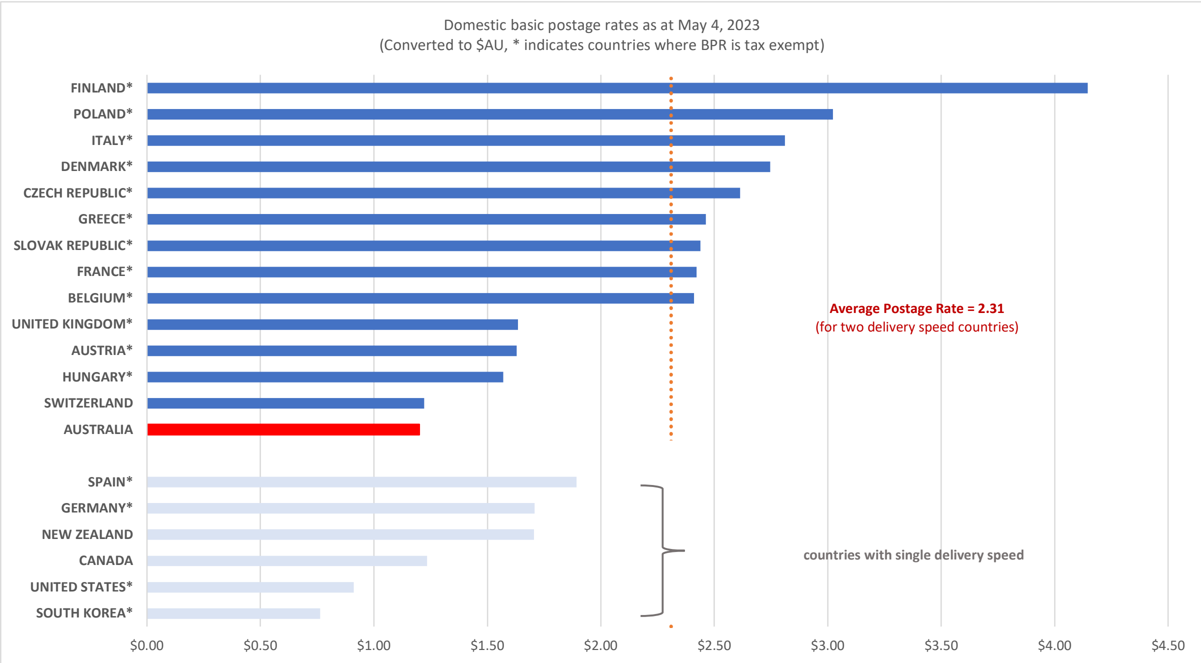
As shown in the following table, compared to other OECD countries, over the past five years Australia's basic postage rate has increased at a relatively modest rate of 20%. This makes Australia's basic postage rate (at $1.20) one of the lowest as shown in Chart 1.

Table 3 - basic postage rate growth[5]

Country	2018	2023	Growth
Slovak Republic	$1.36	$2.44	80%
Finland	$2.52	$4.15	64%
Poland	$2.01	$3.02	50%
Hungary	$1.08	$1.57	46%
France	$1.67	$2.42	45%
Spain	$1.33	$1.89	42%
New Zealand	$1.20	$1.70	42%
Greece	$1.78	$2.46	38%
Belgium	$1.76	$2.41	37%
Denmark	$2.06	$2.75	33%
South Korea	$0.59	$0.76	30%
United Kingdom	$1.26	$1.63	29%
Italy	$2.23	$2.81	26%
United States	$0.72	$0.91	26%
Germany	$1.41	$1.71	21%
Czech Republic	$2.16	$2.61	21%
Australia	$1.00	$1.20	20%
Austria	$1.37	$1.63	19%
Canada	$1.15	$1.23	7%
Switzerland	$1.15	$1.22	6%

[5] To ensure a valid comparison, the table and chart converts the local stamp prices as of May 4, 2023 into Australian dollars using the OECD generated purchasing power parities. This conversion to AU$ is calculated using purchasing power parities. Source: www.OECD.org. Additionally, basic postage rates were sourced by Australia Post and Diversified Specifics based upon information available on each of the postal authority websites. Note that standard letter product and lodgement characteristics such as weights and speeds may differ across countries therefore the chart and table presented should be treated as an indicative guide only.

Chart 1 – domestic postage rates



*countries where basic postage rate is tax exempt

6. Letter volumes including econometric projections

6.1. Overview

The sustainability issue facing Australia Post's letters business reflects a situation whereby the migration towards digital communication platforms (e-substitution) is eroding volume despite a growth in delivery points.[6] This is a global trend as postal authorities worldwide have increased their BPR in response to severe volume erosion. By comparison, Australia Post's BPR has remained comparatively low given the lack of significant rate increases over the past five years. This update examines the impact of a proposed January 2024 increase in Australia Post's letter rates, headlined by a 25% rise in the BPR. The research uses econometric techniques to explain historical volume fluctuations for Australia Post's key domestic letter segments whilst also projecting baseline volume forecasts to 2025/26.

6.2. Historical trends

Letter volume reductions differ across each segment because the impact of the key volume driver, e-substitution, differs depending upon the unique communication and content characteristics of each letter service. Total letter volume declines in 2021/22 were softer than usual due to transitory demand stimulus flowing through the PreSort small letter service, see Table 4. Additional mail was attributable to factors including the federal election and increases in the Reserve Bank of Australia's official cash rate which triggered lending institutions into alerting customers of changes to their mortgage commitments. Often the letter was used to convey these communications.

Table 4 - Total addressed domestic letter volumes

	Percentage change (%)				Share of total letters
Segment	**2019/20**	**2020/21**	**2021/22**	**2007/08 to 2021/22**	**2021/22**
Other small	-12.5	-13.6	-9.6	-78.0	25%
PreSort small	-11.0	-10.1	-1.0	-55.4	62%
Other large	-10.5	-12.4	-2.9	-74.7	4%
PreSort large	-20.1	-15.2	8.7*	-76.0	3%
Print Post	-21.3	-12.9	-1.9	-66.2	6%
Total letters	**-12.3**	**-11.4**	**-3.2**	-66.5	**100%**

**figure impacted by the August 2021 Australian census*

6.3. Price elasticities and volume projections

All estimated price elasticities are inelastic, with several statistically insignificant, see Table 5. This conforms with previous updates in this series, as volume erosion is largely driven by accelerated e-substitution and a relative stable letter rate. The econometric baseline projections emphasise minimal long term demand effects resulting from the proposed January 2024 rate rises. Instead, total letter volume erosion is expected to be primarily driven by e-substitutive pressures by 2025/26 irrespective of any rate increases, see Table 6.

[6] Since 2007/08, Australia Post has experienced a 66.5% reduction in total domestic letter volume, however Australia's population has grown by 22.3%.

Table 5 - Price elasticity of demand

		2022 Update	2023 Update
Small letter	Ordinary / Other	-.15	-.38*
	PreSort	-.55*	-.45*
Large letter	Ordinary / Other	-.18	-.38
	PreSort	-.47*	-.65
Print Post		-.06*	-.65

** denotes statistically insignificant*

Table 6 - Percentage changes in total letter volume inclusive of proposed rate rises

(Projections without proposed rate rises presented in parentheses)

	Pre COVID-19	COVID-19		Post COVID-19				
	2018/19*(a)*	**2019/20*(a)***	**2020/21*(a)***	**2021/22*(a)***	**2022/23*(a & p)*** [2]	**2023/24*(p)***	**2024/25*(p)***	**2025/26*(p)***
Small								
Ordinary/Other	-13.9	-12.5	-13.6	-9.6	-12.1	-12.3 *(-12.1)*	-13.0 *(-12.0)*	-13.1 *(-12.1)*
PreSort	-7.7	-11.0	-10.1	-1.0	-2.0	-14.3 *(-8.9)*	-10.1 *(-6.5)*	-6.3 *(-6.3)*
Large								
Ordinary/Other	-10.6	-10.5	-12.4	-2.9	-10.2	-9.7 *(-9.6)*	-10.0 *(-8.8)*	-9.3 *(-8.1)*
PreSort	16.6	-20.1	-15.2	8.7	-15.0	-10.0 *(-8.7)*	-13.0 *(-6.5)*	-10.5 *(-7.6)*
Print Post	-9.1	-21.3	-12.9	-1.9	-12.5	-21.1 *(-16.9)*	-22.1 *(-12.7)*	-12.3 *(-12.3)*
Total letters	**-9.2**	**-12.3**	**-11.4**	**-3.2**	**-5.8**	**-13.9 *(-10.1)***	**-11.5 *(-8.1)***	**-8.4 *(-8.0)***

actual *(a)* & projected *(p)* baseline

Note: The 2022/23 projections in Table 6 above are constructed by using nine months of actual values and three months of econometric projected values.

7. Productivity

This section contains:

- Detail on the total factor productivity (**TFP**) results for Australia Post at the corporate and reserved service levels; and
- Detail on Australia Post's cost containment and productivity initiatives including an update on initiatives detailed in Australia Post's notification of 2022.

7.1. Total factor productivity

In support of this price working paper, Australia Post commissioned Quantonomics to produce updated estimates of its TFP trends at the corporate and reserved service levels. The approach taken adopts the same methodology as the Quantonomics *Australia Post's Corporate and Reserved Service Total Factor Productivity Report*, August 2022.

A copy of the 2023 Report has been provided to the ACCC.

7.1.1. Australia Post's corporate and reserved services TFP - 2023

Productivity growth is calculated at the corporate level for 1992 to 2023 and at the reserved services level for 1997 to 2023.

At the corporate level, there are three outputs: billed mail, billed non-mail and other (functional).

At the reserved service level, there are two outputs: billed mail and other (functional).

The 'other (functional) output' is the number of delivery points as delivery points are the best available proxy measure for the network size Australia Post is required to maintain.

Australia Post's long-term Corporate TFP growth rate of 1.4 per cent per year exceeds the long-term average rate of productivity growth for the market sector. Over the period 2015 to 2023[7], Australia Post's Corporate TFP growth rate of 1.0 per cent is comparable to the ABS market sector productivity index, which averaged an annual growth rate of 0.8 per cent over the period 2015 to 2022.

Australia Post's Reserved Services TFP growth of 2.2 per cent, on average from 1997 to 2023, has outperformed the ABS market sector productivity index which averaged an annual growth rate of 0.7 per cent for the period from 1997 to 2022.[8] This is an impressive achievement given the mail output has fallen substantially since 2008.

7.2. Network Operations Productivity

A range of local and national initiatives and programs support Australia Post's cost containment and productivity targets for the network. They cover efficiencies pursued at a localised basis to national programs to re-engineer core network processes to extract cost and where possible, build flexibility.

Cost containment productivity initiatives need to be viewed in a strategic context. While the aim is to effectively manage costs, this must be done without compromising delivery service standards or the safety of team members.

Australia Post operates an organisation-wide business efficiency program. As shown in the following Table, Australia Post has surpassed the enterprise efficiency program target for the 2022/23 year.

[7]

[8] ABS 5260.0.55.002 'Estimates of Industry Multifactor Productivity, Australia', Table 2: Hours worked basis.

Table 7 – Enterprise Efficiency Program

	Actual	Forecast	Forecast*	Forecast*	Forecast*
Corporate Plan Enterprise Efficiency Program	**2022/23 $m**	**2022/23 $m**	**2023/24 $m**	**2024/25 $m**	**2025/26 $m**
Targets allocated to areas					
Retail	✂	✂	✂	✂	✂
Network Operations	✂	✂	✂	✂	✂
Support Functions	✂	✂	✂	✂	✂
Total Efficiency Benefit	**237**	**216**	**200**	**252**	**147**

*** Excludes Modernisation Benefits**

7.3. Price notification of 2022 – update

Australia Post's price notification of 2022 showed that despite the challenges of the COVID pandemic, Australia Post continued to pursue cost savings. An update on initiatives that identified forecast savings in that price notification is as follows.

7.3.1. Parcel Streaming

In 2022/23, through parcel gauge changes and delivery facility compliance, the volume of parcels streamed to postal delivery officers has resulted in a benefit of around $49m. The proportion of parcels delivered by postal delivery officers has increased to 43.9% against a target of circa 40%.

7.3.2. Delivery round review

At the expiration of Temporary Regulatory Relief (30 June 2021), the objective of this initiative was to restructure corporate metropolitan postie rounds to reduce the overall number of delivery rounds that covered this area. By the end of 2021/22 the number of corporate metropolitan delivery rounds decreased by 10% with net savings of $26.5m ($19.5m saved directly via the Sustainable Delivery Model Program, with a further $21.7m saved via other deliveries productivity and cost absorption initiatives, offset by $14.7m in additional recruitment).

7.3.3. Delivery mode review

In addition to introducing eDVs which enable the postal delivery officer to safely carry more items compared to the current motorcycle fleet, as part of the strategy to reduce reliance on motorcycles and increase safety we continue to seek out alternative modes of delivery. As noted in Australia Post's notification of 2022, as of May 2022 there were circa 3,500 motorcycles, representing 40% of corporate delivery rounds, being used for daily letter delivery.

Since that time 550 three-wheel vehicles have been deployed into the network to displace motorcycles. In addition, ongoing review of vehicle lease arrangements has provided a benefit of $10.6m by the end of 2022/23.

7.3.4. Unaddressed Mail capacity management

Phased introduction of system enhancements to Australia Post's Unaddressed Mail Booking system commenced September 2022. However, as bookings can be made as much 90 days in advance of expected delivery, realisation of benefits has a noticeable lag. Initial data shows volume volatility is noticeably reduced, and performance is being closely monitored to assess resultant labour and cost savings.

7.3.5. Automation

As small parcel sorting machines are deployed, night sorting processing activities have been reviewed to reduce manual work effort in delivery by increased use of mail processing equipment.

As of June 2023, thirteen small parcel processing machines have been deployed. To date, savings of $8.8m have been realised.

7.3.6. Operational Efficiencies within Letters Processing

Cumulative benefits of $49.7m have been delivered across 2019/20 to 2022/23, arising from a variety of initiatives, including:

- Processing efficiency improvements to machine processing and mail movements within facilities;
- Consolidation of QLD metropolitan mail processing;
- Review and restructure of technician labour;
- Review and restructure of management and supervisory structures;
- Shift alignment changes; and
- The processing footprint associated with Letters activities within mail centres has reduced by 25,000 sqm across Sydney, Melbourne, Newcastle, Adelaide and Darwin.

7.3.7. Deconsolidation of Heathwood Delivery Centre

Due to labour and supply chain cost increases, a supplementary business case was developed and subsequently approved. The project is on track to be completed Q2 2023/24.

7.4. Modernisation

In response to the operating constraints arising from the COVID pandemic, the then Government temporarily relaxed the Performance Standards between 16 May 2020 and 30 June 2021.

This was implemented by reducing letters delivery frequency to metropolitan areas (from every business day to every second day business day), increasing intrastate delivery timeframes to five business days and allowing post offices to close where needed to keep team members safe.

At this time the option to send letters to the priority timetable was also suspended, an alternative (slower) priority letter service was introduced, and some team members were temporarily redeployed to support the increasing demand for parcel services.

Although the Performance Standards largely reverted to pre-pandemic requirements on 1 July 2021, the temporary changes demonstrated the capacity of the postal delivery network to adapt to new delivery models while ensuring letter services were maintained.

Australia Post’s current delivery model of five day a week delivery of all products on fixed rounds was designed for efficient delivery of high letter volumes.

Since, the 2007/08 peak Australia Post is now delivering less than one-third of the number of addressed letters to each delivery point (down from 8.5 letters per week in 2007/08 to 2.4 letters per week in 2021/22).

By 2032, addressed letter volumes are expected to fall below 500 million annually, meaning the average household will receive less than one letter each week.

7.4.1. New delivery model

Declining letter volumes, increasing input costs e.g. wage growth and an increasing delivery footprint are eroding productivity and pushing unit delivery costs up.

[c-i-c] Australia Post is piloting a new delivery model that has fewer delivery rounds, with each round divided into two parts that will operate to an alternating 'heavy' or 'light' routine.

To achieve this, Australia Post will:

- Reduce the overall number of delivery rounds by [c-i-c]
- Split each round into halves that on alternate days will deliver a 'heavy' half where all product is delivered, and a 'light' half where only parcels, letters sent to the priority delivery timetable and Express Post articles are delivered.
    - All delivery rounds are in scope, however, there will be exceptions based on local considerations [c-i-c]

Productivity benefits will be realised through:

- Reducing the total number of delivery rounds (circa [c-i-c]) and increasing the number of delivery points per round (circa [c-i-c]).
- Increasing volume density (number of items per stop) on heavy delivery days.
- Increasing delivery travel speed on light delivery days by 'skipping' delivery points and moving off the footpath due to lower-volume density.

7.4.2. Transitioning to the new delivery model

[c-i-c]

The pilot commenced in April 2023 and the extended trial will commence in September 2023. [c-i-c]

To ensure delivery performance standards are not compromised, successful rollout of the new delivery model is dependent on:

- Changes in middle-mile (i.e. processing) automated and non-automated sorting:
    - To achieve the improved density for heavy delivery days, mail processing facilities will be required to strictly manage the flow and chronology of regular letter product within an alternating day schedule.
    - Careful production planning and subsequent implementation of processing changes as groups of delivery rounds transition to the new model.
    - Custom arrangements at facilities due to the mix of mail processing equipment available.

- Detailed planning at the local level:
    - Reducing delivery rounds [c-i-c] will require extensive and detailed planning at the local facility level. This will include consideration of factors including terrain, road access and delivery mode.
    - Given the magnitude of change to each delivery round, extensive staff consultation will be required throughout the process.
- Monitoring of delivery rounds once transitioned:
    - Delivery rounds transitioned to the new model will need to be monitored and if appropriate changed in the weeks following the transition based on the feedback of the postal delivery officers.

7.4.3. Pilot

Following a joint decision by Australia Post and the Communications Workers Union, Hornsby Delivery Centre, NSW was selected as the pilot site for the new delivery model.

This initial pilot enabled Australia Post to test, validate and refine the parameters of the model, and allow solutioning to commence for challenges in the process and equipment usage.

The pilot commenced 11 April 2023 [c-i-c]

7.4.4. Extended trial

At the time of writing this paper, in addition to Hornsby, Nepean in NSW, Brendale in QLD and Camden Park in SA have been announced and with a view they 'go-live' with delivery round changes following consultation with union representatives and local teams. Victorian and WA locations are also expected to be announced shortly. Trials at the Nepean and Camden Park sites are expected to commence around 11 September, with trials at Victorian and Western Australian sites expected to go live in October.

The purpose of this extended trial is to:

- Confirm working assumptions across a wider variety of conditions and delivery modes;
- Iterate process and equipment design solutions across a variety of delivery rounds;
- Test local processing arrangements in each of the major processing facilities;
- Provide an opportunity for state union representatives to have input into the delivery model;
- Test planning and scheduling arrangements to support the operational changes; and
- Validate timelines and support levels required per group of delivery rounds.

[c-i-c]

7.5. Modernisation – letters

[c-i-c]

7.6. Modernisation – New Retail Model

Our post offices are experiencing significant disruption from competition and digital transformation, reducing revenue-generating retail transactions. This is influenced in part by:

- Increasing numbers of people using digital solutions for banking, bill payments and government services;
- Steep declines in demand for cash payments as we shift to a cashless economy;
- Reductions in demand for addressed and unaddressed mail services;
- Long-term slowing of demand for private Post Office boxes and community bags; and

- Growing competition in online identity and banking services, expected to accelerate with the Australian Government's target to be a top-3 digital government globally by 2024.

Since 2013/14, there are 39 per cent fewer retail transactions conducted in our post offices. Operating costs continue to increase (inflation and retail awards for corporate outlets and General Retail Industry Award (GRIA) indexation for LPOs) and for an increasing number of LPOs their declining viability places upward pressure on minimum payments and commission rates.

7.6.1. Response

In response Australia Post is implementing a more flexible, contemporary approach on how lodgement and collection points are dispersed, how retail outlets are recognised, and how the post office network is managed.

[c-i-c]

In Germany, Deutsche Post moved from having more than 29,000 post offices to less than 50, replacing them with a combination of parcel lockers and partnerships with local stores. Norway and Slovenia have undertaken similar transformations. In New Zealand, NZ Post worked closely with the New Zealand Government to secure regulatory relief in response to growing financial pressures.

7.6.2. Implementation

[c-i-c]

we will continue to invest in our points of presence which includes:

- Parcel lockers. In 2023/24 there will be a rollout of circa 250 new parcel locker locations and in 2024/25 there will be another 300 - 500 new parcel locker locations rolled out.
- Self-service (unattended) sites. In 2023/24 the number of current sites (27) will increase by approximately 10-15 sites.

Over the next four years, we expect our overall number of Points of Presence to remain stable, at around 5,000 points.

All targets will be reviewed from time-to-time and protocols detailed in the publicly available Post Office Network Change Protocols document[9] set out how Australia Post will communicate with the community in the event of retail service changes.

[9] https://auspost.com.au/about-us/corporate-information/our-organisation/policies

7.6.3. Productivity benefit

As detailed in Table 7 the forecast enterprise efficiency program target relating to the retail business over the 2022/23 to 2025/26 period is $✂. In FY23, we achieved $✂ of savings, which was [c-i-c] than target, which included $✂ labour savings through increased productivity and attrition, and a further $✂ from operational savings.

Over the period of this notification (2023/24 to 2025/26), planned gross savings from the Future Operating Model and [c-i-c] are ✂.

7.7. Future Operating Model

To successfully achieve our Post 26 Strategy, Australia Post is well progressed in implementing an organisational restructure to:

- Create a leaner and optimised support function, allowing for investment into its must-win priorities; and
- Strengthen accountabilities by removing confusion and duplication, while embedding a stronger cost-management culture and mindset.

Since February 2023, Australia Post has completed four phases of change across our support functions, which have led to organisational improvements, including:

- Consolidating key support functions and streamlining how projects and programs are managed, planned and delivered;
- Reducing our technology debt and aligning technology resources to Australia Post's FY24 digital and cyber priorities;
- Introducing profit and loss accountability to the Retail, Brand & Marketing and Parcel, Post & eCommerce Services business units to strengthen ownership of the customer experience;
- Streamlining sales account management to provide business customers with a single point of contact, supported by specialised back-office and service teams; and
- Reorganising the People & Culture teams to support a tiered service model for the enterprise.

These new structures are being embedded with robust support for people leaders and those impacted by the changes. Work is underway to identify longer term process enhancements and automation opportunities requiring investment in the current, and subsequent, financial years.

[c-i-c]

8. Cost allocation model

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.

In addition to being used for internal reporting, EPM supports external reporting including:

- The Regulatory Accounting Procedure Manual (RAPM);
- Production of the Record Keeping Rules (RKR) Schedules;
- Quarterly shareholder reports;
- The Annual Report;
- CSO cost estimate (input into the CSO Model); and
- Price notifications.

8.1. Cost allocation methodology

Australia Post's cost allocation methodology is robust and relevant:

- Product volume is the dominant cost driver in the model.
    - Product volumes are captured monthly and updated in the model.
- Product volume is measured in each activity (providing activity specific volume) and in each geographic state (state originating and terminating volumes).
    - Activity drivers are typically assessed annually, however, the model is updated if there is a material change within the network.
- Products that are not serviced by an activity, receive none of that activity's cost.
- Consumption rates (time, weight, repetitions) are reviewed when activity costs deviate from expected tolerances (i.e. activity unit costs increase / decrease sharply).

As all activity cost is volume variable the model avoids over-costing declining products and under-costing growing products. For example as demand for reserved letter service products declines, an increasing proportion of Australia Post's total cost base is borne by non-reserved products.

This methodology reflects a 'dual till' approach.

The principles underpinning the cost allocation model are unchanged, however, Australia Post continually reviews EPM in line with business changes to ensure it reflects the fundamentals of the business. Since Australia Post's notification of 2022, Australia has undertaken a number of reviews. Each of these is discussed in turn.

8.2. Retail supply chain

In February 2023 Australia Post reviewed the retail supply chain function by visiting the Altona fulfilment centre and having detailed discussions and workshops with relevant senior retail personnel.

Prior to the review, allocation of retail supply chain costs was separated into two primary functions:

- Fulfilment services – distribution of retail stock throughout the national post office network. The cost of this function was charged to retail outlets in the general ledger, and subsequently included in the cost base of the corporate or licensed post office. Costs are now allocated to products based on their consumption of corporate and licensed post office activities.

- Management of the fulfilment service, and distribution of postage stamps and philatelic products throughout the post office network. It should be noted that currently the retail supply chain is not involved in the distribution of postage stamps and philatelic packs, and this has been addressed in the review. This function is performed by Sprintpak, which has its own operational and management structures and operates independently to the retail supply chain.

Following the review, allocation of retail supply chain costs is separated into three primary functions:

- Management of inbound and outbound movement of stock for sale, including the management of stock levels, storage of stock, order fulfilment and stock returns from the post office network. The effort involved in performing these activities (incl. product breakdown) is based on five years' worth of data and is the basis for the allocation of this function to products.
- Management and fulfilment of Australia Post uniforms and consumables (e.g. forms and stationery) used in the day-to-day operation of post offices. The allocation of this function to products is based on their proportional share of the retail network support function.
- Oversight and management of fulfilment centres throughout Australia – as this function provides management and oversight over the first two functions, it is allocated to products based on their proportional share of the first two functions.

Table 12 – Impact of Retail Supply Chain review 2021/22 costs[10]

2021/22 cost ($m) – Final	Pre-review	Post-review	Change
Ordinary Stamped	✂	✂	✂
PreSort	✂	✂	✂
Print Post	✂	✂	✂
Ordinary Other	✂	✂	✂
Total Reserved Letters	**1,599.0**	**1,596.6**	**(2.5)**
Non-reserved Letters	✂	✂	✂
Total Domestic Letters	**1,898.5**	**1,895.4**	**(3.1)**

8.3. Transport update

In February 2023 Australia Post undertook a review of the activities performed by Metropolitan Transport and Van Operations.

The review resulted in several cost allocation changes made in a single update. The total impact of these changes on cost allocation to addressed letters is shown in Table 13.

[10] Impact on full year 2021/22 estimated as this change was made after the 2021/22 model was finalised.

Table 13 – Impact of Transport review 2021/22 costs[11]

2021/22 cost ($m) Actual	Pre-Transport Update	Post-Transport Update*	Change*
Ordinary Stamped	183.3	187.5	4.2
PreSort	886.4	871.0	(15.4)
Print Post	115.3	114.6	(0.6)
Ordinary Other	414.1	414.7	0.5
Total Reserved Letters	**1,599.0**	**1,587.8**	**(11.3)**
Non-reserved Letters	299.4	297.7	(1.8)
Total Domestic Letters	**1,898.5**	**1,885.4**	**(13.0)**

8.3.1. Metropolitan transport

Metropolitan transport comprises two activities:

- Picking up letters and parcels from large customers and taking them into the network for processing; and
- Performing scheduled transport runs between major facilities (e.g. transporting sorted letters and parcels from processing centres to delivery centres).

Metropolitan transport uses mainly large, fixed axle trucks with a typical carrying capacity of 10-, 28- or 48-unit loading devices (ULDs).

The cost allocation update used stop count data from the metropolitan transport management system which resulted in disaggregation of the interoffice activity and creation of the two new activities (refer above dot points).

This allows bulk lodgement volumes from large customers to be used to allocate customer pickup costs and retail lodgement volumes consolidated at hubs to be used to allocate the cost of the hub to processing centre transport.

8.3.2. Van Operations – morning and evening retail runs

The van operations function uses vans to pick up letters and parcels from customers, service the retail network and clear street posting boxes.

Like the Metropolitan Transport changes, the change to Van Operations involved disaggregation of morning and evening 'retail runs' from a single interoffice transport activity and creation of two new activities. The effort involved in van operations performing the morning and evening retail outlet runs was obtained through leveraging data provided as part of the 2021 National Van Operations survey. The morning and evening retail runs are allocated to product on the following basis:

- Morning retail runs relate to the carriage of articles to retail outlets, that then require the outlets to sort the articles into their post office boxes or be delivered over the counter. Counter point and post office box delivered volumes associated with retail outlets are used to allocate the costs to product.
- Evening retail runs relate to the collection of articles lodged over the counter at retail outlets, typically at the end of a trading day. The volume of articles lodged over the counter at retail outlets and via a street posting box (SPB) if the outlet clears the SPB is used to allocate the costs to product.

[11] Impact on full year 2021/22 estimated as this change was made after the 2021/22 model was finalised

9. Costs

This section contains:

- An overview of Australia Post's costs by major category;
- Detail on how these costs change by price, volume or other impacts; and
- Detail on the superannuation arrangements available to employees of Australia Post.

Table 14 – Financial overview

	Actual	Actual	Forecast	Forecast	Forecast
$m	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Trading Revenue					
Letters[12]	1,783	1,710	✂	✂	✂
Non-Letters	7,134	7,226	✂	✂	✂
Total Trading Revenue	**8,917**	**8,937**	✂	✂	✂
Trading Expenses (Cost)					
Labour and Oncosts	3,604	3,588	✂	✂	✂
Superannuation Expense	299	258	✂	✂	✂
Contract Services	102	119	✂	✂	✂
Goods / Services for Sale	207	207	✂	✂	✂
Accommodation	287	281	✂	✂	✂
Depreciation	544	577	✂	✂	✂
Carriage of Mail	2,578	2,579	✂	✂	✂
LPO & Franchising Expenses	537	566	✂	✂	✂
Other Non-Labour	812	833	✂	✂	✂
Total Trading Expenses	**8,968**	**9,007**	✂	✂	✂
Trading Profit	**(51)**	**(71)**	✂	✂	✂
Total Non-trading Items	**107**	**(130)**	✂	✂	✂
Profit Before Tax	**55**	**(200)**	✂	✂	✂

[12] Includes total domestic letters, inbound letters, inbound packets <2kg and outbound letters. Letters revenue includes impact of proposed BPR increase contained in this Draft Notification.

The following Table shows the movement between the financial modelling as detailed in the working paper and the 2022/23 Corporate Plan.

Table 15 – Financial overview comparison

	Actual	Forecast for working paper			2022/23 Corporate Plan				Movement			
$m	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Trading Revenue												
Letters[13]	1,710	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Non-Letters	7,226	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Total Trading Revenue	**8,937**	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Trading Expenses (Cost)												
Labour & Oncosts	3,588	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Superannuation Expense	258	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Contract Services	119	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Goods/Services for Sale Exp	207	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Accommodation	281	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Depreciation	577	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Carriage of Mail	2,579	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
LPO & Franchising Expenses	566	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Other Non-Labour	833	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Total trading expenses	**9,007**	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Trading profit	**(71)**	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Total non-trading items	**(130)**	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂
Profit before Tax	**(200)**	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂	✂

[13] Includes total domestic letters, inbound letters, inbound packets <2kg and outbound letters

9.1. LPO mail and delivery payments

The payments licensees receive for mail and delivery related activities are either a percentage of postage value or dollar-rate fees, such as the post office box service fee and per delivery point mail management fee.

9.2. Changes to major cost categories

An overview of the changes to the major cost categories are shown in the following Tables.

Labour and oncosts (including superannuation expense): a change in volume reflects the impact of a change in the quantity of labour used (i.e. an increase or decrease). A change in price reflects an increase in wage and payment rates. Price is driven largely by the Enterprise Agreements in place across Australia Post.

The following Tables provide an annual breakdown of labour and oncosts at the Australia Post and reserved letter service levels.

Table 16 – Labour and oncosts, Australia Post

$m	Forecast	
	Change	Total
2021/22 Labour (Final)		**3,903**
volume impact	(200)	
price impact	183	
other	(41)	
2023/23 Labour (Final)		**3,845**
volume impact	(149)	
price impact	185	
other	8	
2023/24 Labour		**3,889**
volume impact	(140)	
price impact	124	
other	(2)	
2024/25 Labour		**3,871**
volume impact	(87)	
price impact	106	
other	7	
2025/26 Labour		**3,897**

Table 17 – Labour and oncosts, reserved letter service

$m	Forecast	
	Change	Total
2021/22 Labour (Final)		**994**
volume impact	(19)	
price impact	52	
other	(9)	
2022/23 Labour (Final)		**1,018**
volume impact	(37)	
price impact	49	
other	(1)	
2023/24 Labour		**1,029**
volume impact	(166)	
price impact	28	
other	(15)	
2024/25 Labour		**876**
volume impact	(49)	
price impact	23	
other	(0)	
2025/26 Labour		**850**

Licensed Post Office (LPO) commissions[14]: a change in volume reflects the impact of a change in the quantity of sales and other volume related activity (e.g. parcel carding services). A change in price reflects a change to payment rates.

The following Tables provide an annual breakdown of LPO commission cost at the Australia Post and reserved letter service levels.

Table 18 – LPO commissions, Australia Post

$m	Forecast	
	Change	Total
2021/22 LPO commissions (Final)		**537**
volume impact	3	
price impact	26	
2022/23 LPO commissions (Final)		**566**
volume impact	(11)	
price impact	37	
2023/24 LPO commissions		**592**
volume impact	7	
price impact	12	
2024/25 LPO commissions		**611**
volume impact	(15)	
price impact	11	
2025/26 LPO commissions		**608**

Table 19 – LPO commissions, reserved letter service

$m	Forecast	
	Change	Total
2021/22 LPO commissions (Final)		**122**
volume impact	(8)	
price impact	5	
2022/23 LPO commissions (Final)		**119**
volume impact	(2)	
price impact	10	
2023/24 LPO commissions		**127**
volume impact	(2)	
price impact	2	
2024/25 LPO commissions		**127**
volume impact	(7)	
price impact	2	
2025/26 LPO commissions		**122**

Contract mail: a change in price reflects the impact of a change in the payment rate. A change in volume will depend on the contract type reflecting either an increase in volume carried, increase in points serviced or an increase in number of contractors used.

The following two Tables provide an annual breakdown of contract mail cost at the Australia Post and reserved letter service levels.

Table 20 – Contract mail, Australia Post

$m	Forecast	
	Change	Total
2021/22 Contract Mail (Final)		**2,578**
volume impact	(107)	
price impact	108	
2022/23 Contract Mail (Final)		**2,579**
volume impact	(130)	
price impact	114	
2023/24 Contract Mail		**2,563**
volume impact	37	
price impact	70	
2024/25 Contract Mail		**2,670**
volume impact	70	
price impact	65	
2025/26 Contract Mail		**2,804**

[14] Commissions paid to non-corporate post offices (e.g. Licensed Post Offices)

Table 21 – Contract mail, reserved letter service

$m	Forecast	
	Change	Total
2021/22 Contract Mail (Final)		**184**
volume impact	11	
price impact	9	
2022/23 Contract Mail (Final)		**203**
volume impact	(10)	
price impact	9	
2023/24 Contract Mail		**203**
volume impact	(17)	
price impact	5	
2024/25 Contract Mail		**190**
volume impact	(8)	
price impact	4	
2025/26 Contract Mail		**187**

Cost of sales: a change in volume reflects a change in the volume of goods sold. A change in price reflects a change in the cost of acquiring the stock or change in the mix.

The following Tables provide an annual breakdown of Cost of Sales at the Australia Post and reserved letter service levels.

Table 22 – Cost of Sales, Australia Post

$m	Forecast	
	Change	Total
2021/22 Cost of sales (Final)		**207**
volume impact	(1)	
price impact	0	
2022/23 Cost of sales (Final)		**207**
volume impact	(23)	
price impact	0	
2023/24 Cost of sales		**184**
volume impact	(6)	
price impact	0	
2024/25 Cost of sales		**178**
volume impact	(1)	
price impact	0	
2025/26 Cost of sales		**177**

Table 23 – Cost of Sales, reserved letter service

$m	Forecast	
	Change	Total
2021/22 Cost of sales (Final)		**3**
volume impact	(0)	
price impact	(0)	
2022/23 Cost of sales (Final)		**2**
volume impact	(0)	
price impact	(0)	
2023/24 Cost of sales		**2**
volume impact	(0)	
price impact	(0)	
2024/25 Cost of sales		**2**
volume impact	(0)	
price impact	(0)	
2025/26 Cost of sales		**1**

9.3. Full Time Equivalent usage

As shown, total FTEs at a domestic letter service and reserved letter service level are forecast to decline. A breakdown of FTEs by type is at Table 25.

Table 24 – Australia Post total FTEs by function

Activity / Area	Actual	Actual	Forecast	Forecast	Forecast
	2021/22	2022/23	2023/24	2024/25	2025/26
Sales & Acceptance	✂	✂	✂	✂	✂
Processing	✂	✂	✂	✂	✂
Transport	✂	✂	✂	✂	✂
Delivery	✂	✂	✂	✂	✂
Other areas	✂	✂	✂	✂	✂
Total	**39,426**	**38,080**	✂	✂	✂

Table 25 – Australia Post total FTEs by type

Activity / Area	Actual	Actual	Forecast	Forecast	Forecast
	2021/22	2022/23	2023/24	2024/25	2025/26
Full time	28,877	29,047	✂	✂	✂
Overtime	3,243	2,900	✂	✂	✂
Part time/ casual	5,749	4,893	✂	✂	✂
Outsourced resources	1,557	1,240	✂	✂	✂
Total	**39,426**	**38,080**	✂	✂	✂

The following two tables show domestic and reserved letter service FTEs by function.

Table 26 – Domestic letter service FTEs by function

Activity / Area	Final 2021/22	Final 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
Sales & Acceptance	✂	✂	✂	✂	✂
Processing	✂	✂	✂	✂	✂
Transport	✂	✂	✂	✂	✂
Delivery	✂	✂	✂	✂	✂
Other areas	✂	✂	✂	✂	✂
Total	**12,530**	**12,248**	✂	✂	✂

Table 27 – Reserved letter service FTEs by function

Activity / Area	Final 2021/22	Final 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
Sales & Acceptance	✂	✂	✂	✂	✂
Processing	✂	✂	✂	✂	✂
Transport	✂	✂	✂	✂	✂
Delivery	✂	✂	✂	✂	✂
Other areas	✂	✂	✂	✂	✂
Total	**10,793**	**10,700**	✂	✂	✂

9.4. Domestic letter service

This section details domestic, reserved and reserved ordinary / other letter forecast data to 2025/26.

Table 28 – Domestic letter service

	Actual 2021/22	Actual 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
Volume (m)	2,137	1,970	1,592	1,449	1,232
Revenue ($m)	1,674	1,609	1,619	1,580	1,400
Cost ($m)	1,898	1,961	1,937	1,724	1,657
Profit ($m)	**(225)**	**(351)**	**(318)**	**(144)**	**(257)**

Table 29 – Domestic letter service costs by function

$m	Actual 2021/22	Actual 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
Sales & Acceptance	✂	✂	✂	✂	✂
Processing	✂	✂	✂	✂	✂
Transport	✂	✂	✂	✂	✂
Delivery	✂	✂	✂	✂	✂
Other	✂	✂	✂	✂	✂
Total Costs	**1,898**	**1,961**	**1,937**	**1,724**	**1,657**

Table 30 – Reserved letter service

	Actual	Actual	Forecast	Forecast	Forecast
	2021/22	2022/23	2023/24	2024/25	2025/26
Volume (m)	1,518	1,434	1,248	1,117	991
Revenue ($m)	1,500	1,450	1,476	1,442	1,284
Cost ($m)	1,599	1,668	1,685	1,497	1,456
Profit ($m)	**(99)**	**(218)**	**(209)**	**(55)**	**(172)**

Table 31 – Reserved letter service costs by function

$m	Actual	Actual	Forecast	Forecast	Forecast
	2021/22	2022/23	2023/24	2024/25	2025/26
Sales & Acceptance	✂	✂	✂	✂	✂
Processing	✂	✂	✂	✂	✂
Transport	✂	✂	✂	✂	✂
Delivery	✂	✂	✂	✂	✂
Other	✂	✂	✂	✂	✂
Total Costs	**1,599**	**1,668**	**1,685**	**1,497**	**1,456**

Table 32 – Reserved Ordinary / Other letter service

	Actual	Actual	Forecast	Forecast	Forecast
	2021/22	2022/23	2023/24	2024/25	2025/26
Volume (m)	441	386	332	294	261
Revenue ($m)	508	460	467	460	411
Cost ($m)	597	591	593	529	513
Profit ($m)	**(89)**	**(130)**	**(127)**	**(69)**	**(102)**

Table 33 – Reserved Ordinary / Other letter service costs by function

$m	Actual	Actual	Forecast	Forecast	Forecast
	2021/22	2022/23	2023/24	2024/25	2025/26
Sales & Acceptance	✂	✂	✂	✂	✂
Processing	✂	✂	✂	✂	✂
Transport	✂	✂	✂	✂	✂
Delivery	✂	✂	✂	✂	✂
Other	✂	✂	✂	✂	✂
Total Costs	**597**	**591**	**593**	**529**	**513**

9.5. Superannuation

There are three main superannuation arrangements available to employees of Australia Post:

- The Australia Post Superannuation Scheme (**APSS**) is a defined benefit fund that accrues, for most permanent employees, a benefit equal to 14.3% of their final average salary for each year of service. Since 30 April 2022, the APSS is now managed as a sub-plan of Australian Retirement Trust (ART). The APSS was closed to new employees in 2012.
- Accumulation fund – principally **AustralianSuper** Select and for StarTrack Award employees, **TWU Super** or **MLC**. Award level members receive employer superannuation contributions of 12% while contract-level employees receive the Superannuation Guarantee Rate, currently 11% of ordinary time earnings, but legislated to ultimately increase to 12% from 1 July 2025.
- **Choice**/stapled fund or Self Managed Super Fund - employees who have exercised fund choice or have had their employer contributions stapled to an existing complying superannuation fund upon commencement of employment.

9.5.1. Funding the APSS defined benefit fund

The APSS defined benefit is funded by a portfolio of diversified assets, managed by ART, and additional employer contributions from Australia Post as determined by an independent Actuary. The assets of the APSS portfolio have been strategically de-risked over the last three years and the current asset allocation is 45% Growth and 55% income assets.

The financial health of the APSS is measured by the 'Vested Benefits Index' (VBI), which measures the value of assets as a percentage of liabilities (or vested benefits) at a point in time. A VBI of 100% indicates that the defined benefit liabilities are fully funded. As of 31 March 2023 the APSS VBI was 113.1%, representing a surplus equivalent to around $450m.

The VBI is monitored closely and is reported by ART to the Actuary and Australia Post monthly. An ART/Australia Post Committee, comprised of three experienced Australia Post Executives and three independent committee members from union organisations affiliated with Australia Post review and oversee ART's investment performance, among other things, through its quarterly committee meetings.

9.5.2. Funding oversight and review

The APSS is subject to an independent actuarial review every three years, as required under the APSS Benefit Deed and APRA Superannuation Prudential Standards. The next triennial review is due in June 2024. The key outcome of the review is to determine the level of contributions required by Australia Post to fund the defined benefit. The 2021 review determined the employer contribution rate to be 5% of member salaries.

In light of increased investment market volatility in the 2023 calendar year, an informal interim review of the contribution rate was completed by the Actuary in conjunction with ART. That review determined the contribution rate of 5% continues to remain appropriate.

The contribution rate may vary depending on the level of the funding surplus (or deficit) reflected in the VBI. Australia Post will undertake a further review of its contribution rate if the VBI falls below the trigger of 110% or above 130% at any point in time.

9.5.1. Australia Post's total superannuation expenses

Australia Post's annual superannuation expense is the sum of its employer contributions to accumulation funds and the APSS defined benefit funding expense. This expense is calculated according to a prescribed formula under accounting standard AASB119 and does not directly impact the VBI or the rate of employer contributions made by Australia Post.

The prescribed calculation, which is subject to bond market price movements, can have a significant impact on the superannuation expense from year to year, in addition to changes in the APSS membership profile.

The total expenses from FY18 to FY23 are reflected in the table below.

Table 34 – Enterprise Superannuation expense

$m	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Defined Benefit Expense	163	143	156	158	146	92
Accumulation Contributions	92	107	122	133	152	166
Total Superannuation Expense	**255**	**250**	**278**	**292**	**298**	**258**

9.6. Depreciation

The following Tables show the depreciation expense for letter products over the next three years.

Table 35 – Depreciation expense, domestic letter service

$m	Actual	Actual	Forecast	Forecast	Forecast
	2021/22	2022/23	2023/24	2024/25	2025/26
Buildings & Fitout	50	50	55	55	55
Plant & equipment	27	34	26	24	23
Computer software	17	17	19	22	25
Motor vehicles	13	16	17	14	14
Total	**106**	**117**	**117**	**115**	**116**

Table 36 – Depreciation expense, reserved letter service

$m	Actual	Actual	Forecast	Forecast	Forecast
	2021/22	2022/23	2023/24	2024/25	2025/26
Buildings & Fitout	44	44	49	49	49
Plant & equipment	23	30	23	22	21
Computer software	14	15	16	19	22
Motor vehicles	11	14	14	12	12
Other Depreciation	(0)	0	0	0	0
Total	**92**	**102**	**103**	**102**	**103**

Table 37 – Depreciation expense, reserved ordinary / other letter service

$m	Actual 2021/22	Actual 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
Buildings & Fitout	21	20	22	21	21
Plant & equipment	10	11	9	8	8
Computer software	6	5	6	8	9
Motor vehicles	3	4	4	4	4
Total	**40**	**41**	**41**	**41**	**42**

10. Asset base

This section provides detail on Australia Post's fixed asset base and includes both the inherited fixed asset base and the incremental changes to it arising from the Australia Post's capital investment plans out to 2025/26.

10.1. Australia Post's balance sheet

As at 30 June 2023[15], the following table shows current and non-current (fixed) assets as per the balance sheet. Further detail is provided at Appendix 4.

Table 38 – Australia Post total assets

Assets	**$m**
Current Assets	
Cash and cash equivalents	640
Trade and other receivables	828
Prepayments	133
Inventories	53
Other current assets	3
Assets held for sale	7
Total current assets	**1,663**
Non-Current Assets	
Net Superannuation asset	801
Property, Plant and Equipment	1,861
Intangible assets	806
Right-of-use assets	891
Investment property	126
Deferred tax assets	154
Equity accounted investees	11
Other non-current assets	40
Total non-current assets	**4,690**
Total Assets	**6.354**

10.2. Asset accounting policies and practices

Fixed assets are grouped into approximately 500 asset classes. Depreciation rates are set asset by asset within each asset class level and are reviewed annually.

Asset stocktakes are also conducted annually where assets and their location are confirmed, transferred to a new work centre, or removed from the asset register if they cannot be located or are no longer used. These practices support the annual report preparation process to ensure that asset balances are not being reported above their appropriate values.

[15] Australia Post Annual Report 2023, Financial and Statutory Reports.

Appendix 5 provides further detail on Australia Post's fixed assets.

10.3. Capital investment plan

Australia Post prepares a capital investment plan each year as part of the annual planning process. The following Table details forecast capital investment out to 2025/26 as detailed in Australia Post's 2022/23 to 2025/26 Corporate Plan.

Table 39 – Capital investment outlays by category

$m	Actual	Forecast	Forecast	Forecast
	2022/23	**2023/24**	**2024/25**	**2025/26**
Strategic initiatives				
Strategic programs	✂	✂	✂	✂
Total strategic initiatives	✂	✂	✂	✂
Non-discretionary	✂	✂	✂	✂
Total	**341**	**356**	**350**	**350**

10.4. Forecast asset base

Table 40 details Australia Post's total fixed assets out to 2025/26. Asset values are allocated to products according to procedures specified in the Regulatory Accounts Procedures Manual (**RAPM**). The RAPM records the procedures to be followed within Australia Post in preparing the Regulatory Accounts.

Australia Post maintains the RAPM as per its obligations under section 22 of the Record Keeping Rules (July 2016). A copy of the RAPM can be provided to the ACCC upon request.

Investment Property and Land and Buildings are measured at Fair Value, whereas Plant and Equipment and Intangible Assets are measured at cost, net of any accumulated depreciation/amortisation and/or impairment losses. Fixed asset opening and closing balances include assets under construction and agree to the Record Keeping Rules schedules.

Table 40 – Australia Post total fixed assets and intangibles[16]

$m	Final	Forecast	Forecast	Forecast	Forecast
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Opening balance	4,908	5,205	4,968	4,719	4,410
Net additions	841	341	356	350	350
Depreciation & amortisation	(544)	(577)	(605)	(660)	(672)
Closing balance	**5,205**	**4,968**	**4,719**	**4,410**	**4,088**

Table 40 details the reserved letter service total fixed assets, consistent with Record Keeping Rules practice and excludes assets under construction until the assets are in service and transferred out.

A breakdown of Table 40 by each letter category is at Appendix 6.

[16] Asset forecast data includes Right of Use Assets

Table 41 – Reserved letter service fixed assets

$m	Final	Forecast	Forecast	Forecast	Forecast
	2021/22	2022/23	2023/24	2024/25	2025/26
Opening balance	747	706	657	607	553
Net additions	51	52	53	47	42
Depreciation & amortisation	(92)	(102)	(103)	(102)	(103)
Closing balance	**706**	**657**	**607**	**553**	**491**

11. Rate of return

In support of its price notification of 2022, Australia Post engaged Deloitte Financial Advisory Pty Ltd (**Deloitte**) to provide an independent assessment of the weighted average cost of capital (**WACC**) for the Australia Post Reserved Letters Business. The WACC parameters were assessed on a forward-looking basis and Australia Post has adopted the mid point of the assessed range. For this working paper the same parameters have been adopted with the exception of an updated risk free rate and consequent flow on to the calculated cost of equity capital.

The nominal, vanilla WACC is the weighted average cost of capital using a pre-tax cost of debt and a post-tax cost of equity.

Table 41 details the parameters with further detail at Appendix 7.

Table 42 – Australia Post WACC

WACC Parameter	Based on latest advice
Risk-free rate[17]	3.92%
Equity market risk premium	5.75%
Beta (ungeared)	1.00
Beta (geared)	1.04
Calculated cost of equity capital	9.88%
Net debt / enterprise value	5.0%
Tax rate	30.00%
Cost of debt (pre-tax)	6.89%
Cost of debt (post-tax)	4.82%
Gamma (imputation factor)	0.00
Nominal post tax vanilla WACC	**9.73%**

[17] As of June 2023

12. Post Tax Revenue Model Summary

Australia Post is proposing that the price changes take effect from January 2024. A comparison of the proposed and allowable revenues over the forecast financial years is below.

Table 43 – Post Tax Revenue Model summary

5.1 Summary of PTRM outputs		2022/23 $m	2023/24 $m	2024/25 $m	2025/26 $m
Nominal Vanilla WACC	**9.73%**				
5.1.1 A: Ordinary reserved letters					
Required Revenue		$ 170	$ 167	$ 144	$ 137
Present Value of Required Revenue		$ 170	$ 161	$ 135	$ 125
Sum of PV over 3 years (2023/24 - 2025/26)					$ 421
Letters Revenue at proposed prices		$ 98.3	$ 95.1	$ 89.4	$ 77.9
Present Value of Proposed Letters Revenue		$ 98	$ 92	$ 84	$ 71
Sum of PV over 3 years (2023/24 - 2025/26)					$ 247
Deficiency of Letters Revenue to Required Revenue		$ 72	$ 70	$ 51	$ 54
Sum of PV over 3 years (2023/24 - 2025/26)					$ 175
5.1.2 B: Domestic reserved letters					
Required Revenue		$ 1,701	$ 1,722	$ 1,536	$ 1,498
Present Value of Required Revenue		$ 1,701	$ 1,663	$ 1,441	$ 1,365
Sum of PV over 3 years (2023/24 - 2025/26)					$ 4,469
Letters Revenue at proposed prices		$ 1,450	$ 1,476	$ 1,442	$ 1,284
Present Value of Proposed Letters Revenue		$ 1,450	$ 1,426	$ 1,353	$ 1,170
Sum of PV over 3 years (2023/24 - 2025/26)					$ 3,948
Deficiency of Letters Revenue to Required Revenue		$ 251	$ 238	$ 88	$ 195
Sum of PV over 3 years (2023/24 - 2025/26)					$ 521
5.1.4 C: Domestic letters					
Required Revenue		$ 1,999	$ 1,979	$ 1,769	$ 1,705
Present Value of Required Revenue		$ 1,999	$ 1,912	$ 1,660	$ 1,553
Sum of PV over 3 years (2023/24 - 2025/26)					$ 5,124
Letters Revenue at proposed prices		$ 1,609	$ 1,619	$ 1,580	$ 1,400
Present Value of Proposed Letters Revenue		$ 1,609	$ 1,565	$ 1,482	$ 1,275
Sum of PV over 3 years (2023/24 - 2025/26)					$ 4,321
Deficiency of Letters Revenue to Required Revenue		$ 390	$ 347	$ 177	$ 278
Sum of PV over 3 years (2023/24 - 2025/26)					$ 803

Appendix 1 – Price Changes

Only reserved ordinary letter services are notified services, however, Australia Post is providing, for information only, detail on other addressed domestic letter service price changes. All prices are proposed to take effect January 2024.

Table 44 – Proposed Ordinary / Other prices

Stamped [#]

Size / Weight	Regular		
	Current	Proposed	Increase
Small			
Stamped	$1.20	$1.50	25.0%
Seasonal Greeting •	$0.65	$0.65	0%
Concession ^	1 stamp	1 stamp	0%
Large			
Stamped			
Up to 125g	$2.40	$3.00	25.0%
Over 125 up to 250g	$3.60	$4.50	25.0%
Over 250 up to 500g	$6.00	$7.50	25.0%
Seasonal Greeting •			
Up to 125g	$1.30	$1.30	0%
Concession stamp ^			
Up to 125g	2 stamps	2 stamps	0%
Over 125 up to 250g	3 stamps	3 stamps	0%
Over 250 up to 500g	5 stamps	5 stamps	0%
Priority label	$0.55	$0.70	27.3%

[#] To send by Priority, purchase a Priority label 70c and place to the left of the stamp(s).

Notes:
• Seasonal Greeting card price available during November and December
^ Concession stamps available in packs of five for $3.00. For small letters use one stamp, for large use number stated.

Metered / Imprint

Size / Weight	Regular	Priority
Small		
Up to 250g	$1.490	$2.190
Large		
Up to 250g	$2.980	$3.680
Over 125 up to 250g	$4.470	$5.170
Over 250 up to 500g	$7.450	$8.150

Local Country and Clean Mail

Size / Weight	Regular	Priority
Local (Country)		
Small	$1.420	$1.455
Large		
Up to 125g	$2.510	$2.920
Over 125 up to 250g	$3.340	$3.760
Over 250 up to 500g	$3.740	$4.380
Clean Mail		
Small	$1.440	$1.890
Small Plus up to 125g	$2.305	$2.860

Prepaid Envelopes / Postcards [#]

Size / Weight	Regular		
	Per item	Pack of 10	
		Single	5+ packs
Envelope			
DL Plain	$1.75	$17.05	$16.65
C5	$3.80	$37.05	$36.10
C4	$6.50	$63.40	$61.75
B4	$7.80	$76.05	$74.10
	Per item	Pack of 50	Box of 500
Window face			
DL		$85.25	$832.50
Postcard	$2.85		

[#] To send by Priority, purchase a Priority label 70c and place to the left of the postage paid mark.

Reply Paid

Size / Weight	Regular	Priority
Small		
Barcoded	$1.000	$1.320
Unbarcoded	$1.950	
Large - Barcoded		
Up to 125g	$3.000	$3.400
Over 125 up to 250g	$4.500	$4.900
Over 250 up to 500g	$7.500	$7.900
Large - Unbarcoded		
Up to 125g	$3.400	
Over 125 up to 250g	$4.900	
Over 250 up to 500g	$7.900	
Annual Fee	$129.00	

Table 45 – Proposed Business Letter prices

PreSort

Size / Weight	Regular				Priority			
	Barcode Direct Tray		Barcode	Unbarcoded	Barcode Direct Tray		Barcode	Unbarcoded
	Same State	Other State	Residue	Residue	Same State	Other State	Residue	Residue
Small Letters								
Up to 125g	$1.350	$1.380	$1.420	$1.440	$1.645	$1.700	$1.835	$1.890
Charity Mail	$0.620	$0.650	$0.680	$1.440	$0.775	$0.810	$0.890	$1.890
PromoPost	$0.790	$0.820	$0.860	$1.440				
Small Plus								
Up to 125g	$1.670	$1.735	$2.135	$2.305	$2.175	$2.255	$2.480	$2.860
PromoPost	$1.050	$1.110	$1.345	$2.305				
Large								
Up to 125g	$2.330	$2.455	$2.825	$2.875	$2.975	$3.125	$3.495	$3.545
Up to 125g - Charity Mail	$1.320	$1.385	$1.615	$2.875				
Up to 125g - PromoPost	$1.490	$1.560	$1.950	$2.875				
Over 125 up to 250g	$3.110	$3.355	$3.770	$4.010	$3.785	$4.030	$4.445	$4.680
Over 125 up to 250g - Charity Mail	$1.725	$1.840	$2.120	$4.010				
Over 125 up to 250g - PromoPost	$1.965	$2.125	$2.535	$4.010				
Over 250 up to 500g	$4.010	$4.255	$4.765	$5.195	$4.680	$4.925	$5.440	$5.865

Registered Post

Size / Weight	Per envelope	Pack of 10	
		Single	5+ packs
Prepaid envelopes			
DL	$6.75	$65.80	$64.15
B4	$8.80	$85.80	$83.60
	Per item	Per box of 50	
Labels			
Label on lodgement	$5.25		
Prepaid label	$5.25	$220.50	
Extra Cover	$2.50		
Delivery Confirmation	$2.95		
Person-to-person	$6.50		

Dometic letter with tracking

Size / Weight	Per envelope	Pack of 10	
		Single	5+ packs
Prepaid envelopes			
Small	$4.75	$46.70	$45.85
Medium	$6.65	$64.85	$63.20
Large	$8.35	$81.40	$79.35
Extra Cover	$2.50		

Registered Post Imprint

Size / Weight	Regular		Priority	
	Barcoded Residue	Unbarcoded Residue	Barcoded Residue	Unbarcoded Residue
Small Letters				
Up to 125g	$5.785	$5.855	$6.140	$6.295
Small Plus				
Up to 125g	$6.235	$6.700	$6.670	$7.260
Large				
Up to 125g	$7.220	$7.270	$7.860	$7.940
Over 125 up to 250g	$7.745	$8.305	$8.445	$9.000
Over 250 up to 500g	$8.330	$8.785	$9.030	$9.450

Notes:

All prices are GST Inclusive, except for External Territories where they are as stated but GST free.

Table 46 – Proposed Print Post Letter prices

Print Post

Size / Weight	Regular				
	Same State			Other State	
	Postcode Direct	Area Direct	Residue	Area Direct	Residue
Small					
0 - 125g	-	-	1.210	-	1.250
Large					
0 - 125g	$1.305	$1.355	$1.675	$1.745	$1.830
126g - 175g	$1.495	$1.690	$2.020	$2.215	$2.370
176g - 250g	$1.655	$1.890	$2.225	$2.445	$2.595
251g - 300g	$1.780	$2.110	$2.390	$2.665	$2.810
301g - 350g	$1.925	$2.275	$2.575	$2.865	$3.030
351g - 400g	$2.040	$2.420	$2.760	$3.060	$3.240
401g - 450g	$2.170	$2.615	$2.945	$3.315	$3.505
451g - 500g	$2.375	$2.835	$3.215	$3.495	$3.685
501g - 600g	$3.550	$4.020	$4.455	$4.710	$5.285
601g - 700g	$4.245	$4.745	$5.215	$5.470	$6.110
701g - 800g	$4.730	$5.410	$5.770	$6.135	$6.675
801g - 900g	$5.155	$5.845	$6.215	$6.550	$7.135
901g - 1000g	$5.530	$6.245	$6.660	$6.955	$7.560

Size / Weight	Priority				
	Same State			Other State	
	Postcode Direct	Area Direct	Residue	Area Direct	Residue
Small					
0 - 125g	-	-	1.330	-	1.375
Large					
0 - 125g	$1.555	$1.670	$2.010	$2.025	$2.080
126g - 175g	$1.775	$2.040	$2.385	$2.555	$2.670
176g - 250g	$1.950	$2.215	$2.585	$2.735	$2.930
251g - 300g	$2.140	$2.465	$2.835	$2.990	$3.185
301g - 350g	$2.330	$2.695	$3.080	$3.255	$3.470
351g - 400g	$2.480	$2.935	$3.275	$3.515	$3.690
401g - 450g	$2.635	$3.140	$3.485	$3.715	$3.970
451g - 500g	$2.800	$3.355	$3.745	$3.930	$4.205
501g - 600g	$4.220	$4.720	$5.155	$5.365	$5.975
601g - 700g	$4.915	$5.445	$5.915	$6.170	$6.810
701g - 800g	$5.425	$6.100	$6.470	$6.835	$7.375
801g - 900g	$5.855	$6.545	$6.915	$7.250	$7.835
901g - 1000g	$6.230	$6.945	$7.360	$7.655	$8.260

Appendix 2 – Financial Overview

The following Table shows the revenue impact of the January 2024, price changes.

Table 47 – Domestic letter service

	Reserved				
	Ordinary /Other	**Other Bulk**	**Total**	**Total Non-Reserved**	**Grand Total Domestic Mail**
2021/22 Actual					
Volume	441	1,077	1,518	619	2,137
Revenue ($m)	508	992	1,500	173	1,674
Total costs ($m)	597	1,002	1,599	299	1,898
Contribution ($m)	(89)	(10)	(99)	(126)	(225)
ROR %	(18)	(1)	(7)	(73)	(13)
2022/23 - Actual					
Volume	386	1,048	1,434	536	1,970
Revenue ($m)	460	990	1,450	159	1,609
Total costs ($m)	591	1,077	1,668	293	1,961
Contribution ($m)	(130)	(87)	(218)	(134)	(351)
ROR %	(28)	(9)	(15)	(84)	(22)
2023/24 - Forecast					
Volume	332	917	1,248	344	1,592
Revenue ($m)	467	1,009	1,476	144	1,619
Total costs ($m)	593	1,092	1,685	✂	✂
Contribution ($m)	(127)	(83)	(209)	✂	✂
ROR %	(27)	(8)	(14)	✂	✂
2024/25 - Forecast					
Volume	294	822	1,117	332	1,449
Revenue ($m)	460	982	1,442	138	1,580
Total costs ($m)	529	968	1,497	✂	✂
Contribution ($m)	(69)	14	(55)	✂	✂
ROR %	(15)	1	(4)	✂	✂
2025/26 - Forecast					
Volume	261	730	991	240	1,232
Revenue ($m)	411	873	1,284	115	1,400
Total costs ($m)	513	944	1,456	✂	✂
Contribution ($m)	(102)	(71)	(172)	✂	✂
ROR %	(25)	(8)	(13)	✂	✂

Appendix 3 – Letter Volume Forecasts

As noted in Section 6 the econometric forecasts represent a baseline upon which further intelligence may be overlaid to counter a lack of tractable empirical data on emerging threats to letter volumes.

As such, to derive the final volume forecasts, Australia Post augments the baseline forecasts with management and market insight. Management and market insights are derived from:

- Input from the salesforce, account managers regarding customer behaviour.
- Market intelligence from participants in the mail value chain.
- Information in the public domain.
- Interpretation of qualitative and quantitative reports commissioned by Australia Post and external sources.
- Underlying market changes includes consolidation of mailings, changes in cycles e.g. Monthly to quarterly, potential targeted activities or events.
- A change in use of communication media – moving customers to online, digital communication, paying online.
- Large mass communication activities e.g. Federal election, Census

The following pages show the augmentation from baseline projection to final volume forecast through to 2025/26.

Table 48 – 2023/24 volume forecast

	2022/23 Volume (m)	Baseline Volume Est (from Eco Model) Raw Growth	Baseline Volume Est (from Eco Model) Raw Volume	Transactional Underlying Market Changes	Transactional Changes in use of Comm Medium	Promotional Underlying Market Changes	Promotional Changes in use of Comm Medium	Total Market Adjust (m)	2023/24 Volume Forecast (m)
Ordinary / Other									
Small	341	-12.3%	299	(1)	(6)	-	-	(7)	291
Large	50	-9.7%	45	(1)	(1)	-	-	(2)	43
Total Ordinary / Other	391	-12.0%	344	(2)	(8)	-	-	(10)	334
PreSort									
Small	945	-14.3%	810	-	5	4	-	9	819
Large	38	-10.0%	34	-	(1)	-	0	(1)	33
Total PreSort	983	-14.1%	844	-	4	4	0	8	852
Print Post	82	-21.1%	65	1	-	-	-	1	66
Large Member Associations	17		15	-	-	-	-	-	15
Total Print Post	99		80	1	-	-	-	1	81
Total PreSort / Print Post	1,082	-14.6%	924	1	4	4	0	9	933
Total Addressed Mail	**1,473**	**-13.9%**	**1,268**	(1)	(4)	4	0	(0)	**1,267**

* Econometric Model growth / decline excludes volumes from large member associations in generating its Baseline.

Ordinary / Other - Transactional

Industry	**2022/23** Volume (m)	**Model -12.0%**	2023/24 Estimate of Impact from Market Change and Use of Media: Underlying Market Changes	2023/24 Estimate of Impact from Market Change and Use of Media: Change in use of communication media	Total Market Adjust Volume (m)	**2023/24** Volume (m)
Finance	69	(8)	-	(1)	(1)	59
Govt	84	(10)	-	(1)	(1)	73
Telco	3	(0)	-	-	-	3
Utilities	8	(1)	-	-	-	7
Other	227	(27)	(2)	(5)	(7)	192
	391	**(47)**	(2)	(8)	**(10)**	**334**

PreSort

Industry / **PreSort - Transactional**	**2022/23** Volume (m)	**Model -14.2%**	2023/24 Estimate of Impact from Market Change and Use of Media: Underlying Market Changes	2023/24 Estimate of Impact from Market Change and Use of Media: Change in use of communication media	Total Market Adjust Volume (m)	**2023/24** Volume (m)
Finance	272	(38)	-	1	1	234
Govt	187	(27)	-	1	1	161
Telco	77	(11)	-	-	-	66
Utilities	52	(7)	-	-	-	45
Other	203	(29)	-	2	2	176
Total Transactional	**791**	**(112)**	-	4	**4**	**682**

PreSort - Promotional	**2022/23** Volume (m)	**Model -14.0%**	2023/24 Estimate of Impact from Market Change and Use of Media: Underlying Market Changes	2023/24 Estimate of Impact from Market Change and Use of Media: Change in use of communication media	Total Market Adjust Volume (m)	**2023/24** Volume (m)
Finance	7	(1)	-	-	-	6
Govt	28	(4)	-	-	-	24
Telco	3	(0)	-	-	-	3
Utilities	1	(0)	-	-	-	1
Other	153	(21)	4	0	4	136
Total Promotional	**192**	**(27)**	4	0	**4**	**170**
Total PreSort	**983**	**(139)**	4	4	**8**	**852**

Print Post	**2022/23** Volume (m)	**Model -21.1%**	2023/24 Estimate of Impact from Market Change and Use of Media: Underlying Market Changes	2023/24 Estimate of Impact from Market Change and Use of Media: Change in use of communication media	Total Market Adjust Volume (m)	**2023/24** Volume (m)
Large Cataloguers	20	(4)	-	-	-	16
Govt	2	(0)	-	-	-	2
Members/ Subscriptions	8	(2)	-	-	-	6
Other	52	(11)	1	-	1	42
Print Post	**82**	**(17)**	1	-	**1**	**66**
Large Member Associations	**17**	-	-	-	-	**15**
Total Print Post	**99**	**(17)**	1	-	**1**	**81**
Total PreSort / Print Post	**1,082**	**(156)**	5	4	**9**	**933**
TOTAL	**1,473**	**(203)**	3	(4)	**(0)**	**1,267**

Table 49 – 2024/25 volume forecast

	2023/24 Volume Forecast (m)	Baseline Volume Est (from Eco Model) Raw Growth	Raw Volume	Transactional Underlying Market Changes	Changes in use of Comm Medium	Promotional Underlying Market Changes	Changes in use of Comm Medium	Total Market Adjust (m)	2024/25 Volume Forecast (m)
Ordinary / Other									
Small	291	-13.0%	253	-	6	-	-	6	260
Large	43	-10.0%	39	-	(1)	-	-	(1)	37
Total Ordinary / Other	334	-12.6%	292	-	5	-	-	5	297
PreSort									
Small	819	-10.1%	736	(4)	(16)	2	19	1	737
Large	33	-13.0%	29	(0)	-	1	-	0	29
Total PreSort	852	-10.2%	765	(4)	(16)	3	19	1	767
Print Post	66	-22.1%	51	3	-	-	-	3	54
Large Member Associations	15		15	-	-	-	-	-	15
Total Print Post	81		66	3	-	-	-	3	69
Total PreSort / Print Post	933	-10.9%	832	(1)	(16)	3	19	4	836
Total Addressed Mail	**1,267**	**-11.3%**	**1,124**	**(1)**	**(12)**	**3**	**19**	**9**	**1,133**

* Econometric Model growth / decline excludes volumes from large member associations in generating its Baseline.

Ordinary / Other - Transactional

Industry	**2023/24** Volume (m)	**Model -12.6%**	2024/25 Estimate of Impact from Market Change and Use of Media: Underlying Market Changes	Change in use of communication media	Total Market Adjust Volume (m)	**2024/25** Volume (m)
Finance	59	(7)	-	-	-	52
Govt	73	(9)	-	5	5	68
Telco	3	(0)	-	-	-	3
Utilities	7	(1)	-	-	-	6
Other	192	(24)	-	0	0	168
	334	**(42)**	-	5	**5**	**297**

PreSort

Industry / **PreSort - Transactional**	**2023/24** Volume (m)	**Model -10.2%**	2024/25 Estimate of Impact from Market Change and Use of Media: Underlying Market Changes	Change in use of communication media	Total Market Adjust Volume (m)	**2024/25** Volume (m)
Finance	234	(24)	(1)	(6)	(7)	203
Govt	161	(16)	(1)	(4)	(5)	140
Telco	66	(7)	-	(2)	(2)	57
Utilities	45	(5)	-	(2)	(2)	38
Other	176	(18)	(2)	(2)	(4)	154
Total Transactional	**682**	**(70)**	(4)	(16)	**(20)**	**593**

PreSort - Promotional	**2023/24** Volume (m)	**Model -10.3%**	2024/25 Estimate of Impact from Market Change and Use of Media: Underlying Market Changes	Change in use of communication media	Total Market Adjust Volume (m)	**2024/25** Volume (m)
Finance	6	(1)	-	-	-	6
Govt	24	(2)	-	19	19	41
Telco	3	(0)	-	-	-	2
Utilities	1	(0)	-	-	-	1
Other	136	(14)	3	-	3	124
Total Promotional	**170**	**(17)**	3	19	**22**	**174**

Total PreSort	**852**	**(87)**	(1)	3	**1**	**767**

Print Post	**2023/24** Volume (m)	**Model -22.1%**	2024/25 Estimate of Impact from Market Change and Use of Media: Underlying Market Changes	Change in use of communication media	Total Market Adjust Volume (m)	**2024/25** Volume (m)
Large Cataloguers	16	(4)	-	-	-	13
Govt	2	(0)	-	-	-	1
Members/ Subscriptions	6	(1)	-	-	-	5
Other	42	(9)	3	-	3	36
Print Post	**66**	**(15)**	3	-	**3**	**54**
Large Member Associations	**15**	**-**	-	-	**-**	**15**
Total Print Post	**81**	**(15)**	**3**	-	**3**	**69**

Total PreSort / Print Post	**933**	**(102)**	2	3	**4**	**836**
TOTAL	**1,267**	**(144)**	2	7	**9**	**1,133**

Table 50 – 2025/26 volume forecast

	2024/25 Volume Forecast (m)	Baseline Volume Est (from Eco Model)		Transactional		Promotional		Total Market Adjust (m)	2025/26 Volume Forecast (m)
		Raw Growth	Raw Volume	Underlying Market Changes	Changes in use of Comm Medium	Underlying Market Changes	Changes in use of Comm Medium		
Ordinary / Other									
Small	260	-13.1%	226	2	2	-	-	4	230
Large	37	-9.3%	34	-	(0)	-	-	(0)	33
Total Ordinary / Other	297	-12.6%	259	2	2	-	-	4	263
PreSort									
Small	737	-6.3%	691	-	(18)	(1)	(20)	(39)	652
Large	29	-10.5%	26	0	-	0	-	0	27
Total PreSort	767	-6.5%	717	0	(18)	(0)	(20)	(38)	679
Print Post	54	-12.3%	48	1	-	-	-	1	48
Large Member Associations *	15		15	-	-	-	-	-	15
Total Print Post	69		63	1	-	-	-	1	63
Total PreSort / Print Post	836	-6.7%	780	1	(18)	(0)	(20)	(38)	742
Total Addressed Mail	**1,133**	**-8.3%**	**1,039**	**3**	**(16)**	**(0)**	**(20)**	**(34)**	**1,006**

* Econometric Model growth / decline excludes volumes from large member associations in generating its Baseline.

Ordinary / Other - Transactional

Industry	**2024/25** Volume (m)	**Model -12.6%**	2025/26 Estimate of Impact from Market Change and Use of Media: Underlying Market Changes	Change in use of communication media	Total Market Adjust Volume (m)	**2025/26** Volume (m)
Finance	52	(7)	-	*1*	1	46
Govt	68	(9)	-	*(3)*	(3)	56
Telco	3	(0)	-	-	-	2
Utilities	6	(1)	-	-	-	5
Other	168	(21)	*2*	*4*	6	153
	297	**(37)**	*2*	*2*	**4**	**263**

PreSort

Industry / **PreSort - Transactional**	**2024/25** Volume (m)	**Model -6.4%**	2025/26 Estimate of Impact from Market Change and Use of Media: Underlying Market Changes	Change in use of communication media	Total Market Adjust Volume (m)	**2025/26** Volume (m)
Finance	203	(13)	-	*(3)*	(3)	187
Govt	140	(9)	-	*(11)*	(11)	120
Telco	57	(4)	-	*(1)*	(1)	52
Utilities	38	(2)	-	*(1)*	(1)	35
Other	154	(10)	*0*	*(2)*	(2)	142
Total Transactional	**593**	**(38)**	*0*	*(18)*	**(18)**	**537**

PreSort - Promotional	**2024/25** Volume (m)	**Model -6.6%**	2025/26 Estimate of Impact from Market Change and Use of Media: Underlying Market Changes	Change in use of communication media	Total Market Adjust Volume (m)	**2025/26** Volume (m)
Finance	6	(0)	-	-	-	5
Govt	41	(3)	-	*(20)*	(20)	18
Telco	2	(0)	-	-	-	2
Utilities	1	(0)	-	-	-	1
Other	124	(8)	*(0)*	-	(0)	116
Total Promotional	**174**	**(11)**	*(0)*	*(20)*	**(20)**	**142**

Total PreSort	**767**	**(50)**	*(0)*	*(38)*	**(38)**	**679**

Print Post	**2024/25** Volume (m)	**Model -12.3%**	2025/26 Estimate of Impact from Market Change and Use of Media: Underlying Market Changes	Change in use of communication media	Total Market Adjust Volume (m)	**2025/26** Volume (m)
Large Cataloguers	13	(2)	-	-	-	11
Govt	1	(0)	-	-	-	1
Subscriptions	5	(1)	-	-	-	4
Other	36	(4)	*1*	-	1	32
Print Post	**54**	**(7)**	*1*	-	**1**	**48**
Large Member Associations	**15**	-	-	-	-	**15**
Total Print Post	**69**	**(7)**	*1*	-	**1**	**63**

Total PreSort / Print Post	**836**	**(56)**	*0*	*(38)*	**(38)**	**742**

TOTAL	**1,133**	**(94)**	*2*	*(36)*	**(34)**	**1,006**

Appendix 4 – Consolidated Group Balance Sheet 30 June 2023

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	640	381
Trade and other receivables	828	820
Prepayments	133	131
Inventories	53	77
Income tax receivable	-	16
Other current assets	3	5
Assets held for sale	7	-
Total current assets	**1,663**	**1,429**
Non-current assets		
Net superannuation asset	801	951
Property, plant and equipment	1,861	1,907
Intangible assets	806	799
Right-of-use-assets	891	958
Investment property	126	161
Deferred tax assets	154	47
Equity accounted investees	11	10
Other non-current assets	40	33
Total non-current assets	**4,690**	**4,864**
Total assets	**6,354**	**6,293**
Liabilities		
Current liabilities		
Current lease liabilities	240	240
Trade and other payables	1,321	1,209
Employee provisions	792	764
Interest-bearing liabilities	174	-
Other provisions	26	16
Income tax payable	2	-
Total current liabilities	**2,555**	**2,229**
Non-current liabilities		
Interest-bearing liabilities	372	350
Employee provisions	265	246
Other provisions	64	61
Non-current lease liabilities	750	826
Other non-current liabilities	8	4
Total non-current liabilities	**1,459**	**1,487**
Total liabilities	**4,014**	**3,716**
Net assets	**2,340**	**2,577**
Equity		
Contributed equity	400	400
Reserves	18	18
Retained profits	1,922	2,159
Equity attributable to equity holders of the parent	**2,340**	**2,577**

Appendix 5 – Fixed Assets

Asset Register structure – Australia Post's fixed assets are grouped into approximately 500 asset classes, each of which is broadly descriptive of the nature of the assets contained within that class rather than by each asset's accounting treatment. For example, the buildings asset class (asset class no. ZB00) comprises administrative buildings, post offices, depots, mail centres etc.

Assets within a class do not necessarily have the same accounting treatment. Within class ZB00, for example, there are three different service lives – 40 years, 50 years, and 70 years – depending on the type of building. Other asset classes similarly can have a range of service lives and/or residual values.

Land and Buildings – at 30 June 2022 asset values provided in this working paper include land and building assets measured at fair value. The fair value of land and buildings at 30 June 2022 was $2,099m compared with a historical cost book value of $719m.

Fair value has been determined through valuations performed by CBRE Group Inc. with each property valued once over a four-year period, on a rolling basis unless a valuation is required sooner. The fair value of each property has been determined by reference to the highest and best use of the property considering the specific characteristics and location of the asset.

Investment Property – at 30 June 2022 the value of this asset class was $160m. Investment property is not allocated to products and services and is not part of the asset base on which this working paper is based.

This assessment was conducted by Opteon Property Group (Opteon), an accredited, external and independent valuer. Opteon is an industry specialist in valuing these types of investment properties in accordance with Australian Valuation Standards. The fair value for each property has been determined by reference to the highest and best use of the property considering the specific characteristics and location of the asset, its location, and the economic environment as at the reporting date.

Plant and Equipment & Other – are initially recorded at cost and subsequently measured at cost less accumulated depreciation and any impairment losses. Information technology assets and motor vehicles are also stated at cost less accumulated depreciation.

Asset Lives – a high level summary of asset lives is shown below and is consistent with the summary provided in the notes to the financial statements contained in the 2022 Annual Report (page 119).

Asset Category	Useful Life Range
Buildings – general post offices	70 years
Buildings – other facilities	40 – 50 years
Leasehold improvements	Lower of lease term and 10 years
Motor vehicles	3 – 10 years
Specialised plant and equipment	7 – 20 years
Other plant and equipment	3 – 10 years

Appendix 6 – Reserved letter service fixed assets

The following Tables provide a breakdown of the reserved letter service fixed assets by product category. Asset data is based on 2021/22 final data.

Table 51 – Ordinary letters

$m	Final 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
Opening balance	99	91	81	70	60
Net additions	3	0	0	0	0
Depreciation	(11)	(10)	(10)	(10)	(10)
Closing balance	**91**	**81**	**70**	**60**	**50**

Table 52 – Other letters

$m	Final 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
Opening balance	234	221	213	204	193
Net additions	16	22	23	20	18
Depreciation	(28)	(30)	(31)	(31)	(32)
Closing balance	**221**	**213**	**204**	**193**	**179**

Table 53 – Small PreSort letters

$m	Final 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
Opening balance	315	299	272	245	216
Net additions	25	22	23	20	18
Depreciation	(41)	(49)	(50)	(49)	(49)
Closing balance	**299**	**272**	**245**	**216**	**184**

Table 54 – Large PreSort letters

$m	Final 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
Opening balance	29	31	30	29	28
Net additions	5	3	3	3	3
Depreciation	(4)	(4)	(4)	(4)	(4)
Closing balance	**31**	**30**	**29**	**28**	**27**

Table 55 – Print Post letters

$m	Final 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
Opening balance	69	65	61	58	55
Net additions	3	5	5	4	4
Depreciation	(7)	(8)	(8)	(8)	(8)
Closing balance	**65**	**61**	**58**	**55**	**51**

Appendix 7 – Weighted Average Cost of Capital

Australia Post has adopted the midpoint of the estimated WACC parameters as per the Deloitte '*Assessment of WACC for Australia Post's Reserved Letters Business',* June 2022 report. A copy of that report has been made available to the ACCC.

Table 56 – WACC parameter values

WACC parameter	Value (based on latest advice)
Risk free rate	3.92%
Equity market risk premium	5.75%
Beta (ungeared)	1.00
Beta (geared)	1.04
Calculated cost of equity capital	9.88%
Net debt / enterprise value (gearing)	5.00%
Tax rate	30.00%
Cost of debt (pre-tax)	6.89%
Cost of debt (post-tax)	4.82%

Risk Free Rate

The risk-free rate compensates the investor for the time value of money and the expected inflation rate over the investment period. The frequently adopted proxy for the risk-free rate is the long-term Government bond rate.

In determining the risk-free rate, we have calculated the five-day average zero coupon yield on the Australian Government Bond, being 3.92% as of June 2023. This rate represents a nominal rate and therefore includes inflation.

Equity Market Risk Premium (EMRP)

In evaluating the EMRP, Deloitte considered both the historically observed and prospective estimates of EMRP.

Beta ungeared and geared

In estimating an appropriate beta for the Letters Business, Deloitte considered the betas of listed comparable companies operating in the postal and logistics industries. These betas have been calculated based on weekly and monthly returns, over a two- and four-year period, compared to the relevant domestic index and were then 'Blume adjusted' as per the adjustment formula detailed in the Report.

Net debt / enterprise value (gearing)

In selecting an appropriate level of gearing for the Letters business to determine net debt / enterprise value, Deloitte considered the gearing of companies comparable to the Letters business, gearing of companies comparable to the broader Australia Post group, the level of operating leverage of the comparable companies, the current capital structure of the Australia Post group and the content in a 2017 report from the Auditor General[18] outlining that it seems unlikely that the Letters business would be able to sustain any debt in its capital structure, absent of government subsidies.

Tax Rate

As previously accepted by the ACCC, the statutory corporate tax rate of 30% is used.

Cost of Debt (pre and post tax)

In selecting a cost of debt for the Letters Business, Deloitte considered the borrowing capacity of the business on a standalone basis.

To reflect the borrowing margin of businesses of similar size and operations, the yield on 10 year non-financial BBB-rated corporate bonds as at 30 June 2022 was considered.

The 10 year maturity of the observed corporate bonds is appropriate as a commercial enterprise would not seek to refinance its entire debt portfolio every two years, rather would rationally seek to refinance a portion of its debt every year.

[18] G. Hehir, "Australia Post's Efficiency in Delivering Reserved Letters Services", ANAO report No. 11, September 2017