



Postal Services Modernisation

LPO Group submission

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1. Executive summary

Over the last twenty years or so there have been numerous enquiries into Australia Post and, apart from the enquiry in 2021, the general theme has been around the decline in letter mail, the need for Australia Post to be more efficient in its operation of the postal service and the maintenance of the vital services that are provided to the Australian community through its Retail Network. One of these enquiries, The Performance, Importance and Role of Australia Post in Australian Communities and its Operation in Relation to Licensed Post Offices, commenced on 14 November 2013 with a final report tabled on 24 September 2014. The report made a number of recommendations in relation to the treatment and payments to Licensees, as well as other matters such as more complex trusted services being available through the Australia Post Retail network. Despite the time, money and effort put into this enquiry, many of these recommendations were simply ignored or the subject of a token effort to placate the various parties involved.

The Government has now released the Postal Services Modernisation discussion paper seeking feedback from interested parties to “inform development of balanced changes to ensure postal services meet the needs of the Australian community both now and into the future”.

Additionally, it is stated that “The Government focus in the near term will be on working with Australia Post to improve productivity and revenue in delivery, while managing costs to support both sustainability objectives and benefits from modernisation.” Apart from vague statements on the benefits of modernisation, there is no specific information regarding the implementation of action plans that would result in improved productivity and revenue in delivery in the near term on which to comment in a meaningful way.

The LPO Group makes the observation that an improvement in revenue and managing costs doesn't automatically result in an improvement in profit, particularly in a competitive parcel market. The parcel and logistics market is characterised by competition and price pressure. Again, the lack of information on the proposed working relationship between the Government and Australia Post to achieve the stated near-term goal makes it difficult to provide meaningful comment on this aspect. Nevertheless, the LPO Group has provided comment and expert industry advice in its submission.

The owners of community Post Offices understand that the success of the business is a two-way street. They rely on Australia Post to capture, maintain and grow its business using the retail network that represents the largest bricks and mortar network in the country and, by default, a competitive advantage for Australia Post in a competitive marketplace. Conversely, Australia Post relies on Licensees to reduce cost to the Corporation by investing in its retail network, while providing customer service and network reach that satisfies community expectations in the provisions of its products and services.

Modernisation of the postal service principles.

The LPO Group broadly supports the principles outlined by the Government in relation to the modernisation of the postal service as our understanding of modernisation is

the process of adapting to modern needs or habits.

Post Office Network

The LPO Group supports an “appropriate” coverage of the Post Office network that results in “financial sustainability” but considers that the definition of “appropriate” varies significantly from relatively well serviced and mobile populations in urban/suburban locations, to that of regional and rural areas. The complexities of supporting LPO and CPA financial sustainability in regional/rural areas in the face of diminishing business opportunities, and the need to continue to service the vulnerable members of the community should not be underestimated and will require considerable discussion prior to any action being implemented.

Personal and Business Banking.

With the exodus of Financial Institutions from communities and the reduction in services of remaining outlets (banks no longer handling cash in some locations), personal and business banking services provided by community Post Offices are considered critical to the survival of communities across Australia.

As financial institutions continue to abandon their customers in both metropolitan and regional areas, Australia Post remains as a somewhat limited provider of their services. Community members quickly find that they are unable to access the same transactions through Australia Post as many banking transactions are not included in the Bank@Post Agreement.

LPOG believes that the Government should establish a rural banking model “The Postal Bank” and, in turn, provide an appropriate range of banking services to the community through the Australia Post network acting as its agent.

What does Australia need in a modern postal service?

Australia is a vast country and the provision of services at a national level always encounters “the tyranny of distance”. The geographic remoteness of the non-urban population makes the cost of transmission through a national grid prohibitive. The LPO Group has the view that the wants and needs of communities for modern postal services vary depending on location. A Post Office in a small community is generally the lifeblood of that community and, in the absence of other service providers, there is a greater emphasis on the Post Office to provide additional services that may not be wanted or particularly needed in an urban setting.

Letter Pricing.

The LPO group supports a pricing mechanism that allows Australia Post to better recover the costs of providing its letter service. Although it would seem that a differential pricing strategy would be an appropriate mechanism to provide a targeted actual cost recovery model, the principles outlined by the Government that there should be a universal and equitable service would preclude this model being adopted.

Letter Delivery Frequency.

The LPO Group gives qualified support for the relaxation of letter delivery frequency requirements, in the face of declining volumes. A change to the legislation to allow a less than five times per week delivery to residences where this frequency currently exists, is supported on the basis that a five times per week delivery is maintained to post office boxes at the existing letter/parcel service standards and the customer promise.

Usage of Australia Post's letter services in the next 5 years.

As per the previous item, a further decline in the letters business would be expected commensurate with price increases, but there will still be a need for a letter service to reach community members in regional and rural areas, particularly in relation to social mail around the various religious and secular annual celebrations like Christmas and Mother's/Father's Day. Lower letter volumes may lead Australia Post to reduce letter delivery frequency even further.

2. Introduction

This submission is made by the LPO Group, on behalf of its members, other Licensees and also in the interest of those community members who are dependent on the availability of the essential services provided from Licensed Post Offices or more aptly called community Post Offices across Australia.

The LPO Group was established in 2013 to advocate for the future viability and sustainability of community Post Offices. It is a consultative body that Australia Post relies on to inform its decisions in relation to the operation of its retail network, where community Post Offices comprise over eighty percent of the post office network. More specifically, the LPO Group has been involved in significant ongoing consultative processes with Australia Post over the last six years regarding payment reform for Licensed Post Office operators, with the single-minded view of ensuring that the privately owned portion of Australia Post's retail network is viable, and so can continue to service the community at large.

The face-to-face service that community Post Offices continue to provide is an essential component in filling the gap that becomes evident for the more vulnerable and disadvantaged in our society, because of businesses and other entities reducing their physical presence in locations across Australia.

The evolution of the licensed community Post Office network has resulted in significant private funds, over the past 30 years, being invested by small business operators to provide the infrastructure for the Australia Post retail network. This allows Australia Post to meet its community service obligations, while maintaining the cost-saving advantages of the Retail Post program established some 30 years ago, requiring minimal ongoing investment levels from the Corporation for the provision of infrastructure used for the retail footprint, and to generate profits for Australia Post, and dividends for the Governments of the day.

It should also be noted that an attempt by Australia Post to introduce a different format i.e., franchised post shops failed to produce the expected result and was subsequently wound up at great expense.

There is no doubt that many communities rely heavily on the community Post Office for a large range of services, essential for the economic and social viability of their community. The past few years alone have showcased the economic value of this network for the economy at so many levels. It has been a challenging time, with unprecedented bushfires, widespread storms and flooding causing extensive damage, power, logistic and cash access disruptions, and COVID.

Many of our community members, and not just our elderly and vulnerable, are being isolated and left behind by the speed of the digital age when it isn't part of their everyday life. Every day more businesses and service providers, both private and government, demand exclusive online interactions, where significant portions of our population do not have the skill sets, the resources, or the ability to use that option, increasing the digital divide. Every community Post Office, every day, is providing more and more guidance and support to our disengaged community members who have nowhere else to turn to for support.

3. Modernisation of the postal service principles

The LPO Group broadly supports the principles outlined by the Government in relation to the modernisation of the postal service as our understanding of modernisation is the process of adapting to modern needs or habits.

3.1. Public ownership

Given the experience in other countries where the postal service has been privatised, it is agreed that Australia Post should remain in public ownership and provide a universal and equitable service that meets the needs of Australian people and businesses. Although a privatisation agenda may provide the Government with funds to reduce its debt or invest in other community projects that provide benefit, there would likely be a commensurate reduction in overall services and a higher cost for those services to the most vulnerable members of the community in both rural and urban areas.

3.2. Australia Post financially sustainable

It is indisputable that Australia Post must remain financially sustainable while also investing in its networks, services and people to support improved national productivity and supply chain resilience. The LPO Group considers that Australia Post can reduce its costs to serve in the letter delivery network if there is a reduction in letter delivery frequency, where there is currently five times a week "to the property" delivery, while a sensible reduction in the retail network should also result in cost savings to Australia Post. The LPO Group considers that while this should provide a sustainable platform and allow appropriate investment in other areas of Australia Post, notably its retail network,

the success or otherwise of this approach very much depends on the ability of the Australia Post Board and senior Australia Post management to implement its modernisation program. It must be noted that full details are yet to be publicised or even discussed at any consultative level, as such LPO Group support for the plan will be dependent on the details.

3.3. Postal services that support Australia's digital economy.

Postal services via the physical delivery of both letters and parcels to the Australian community already exist to a large degree today in terms of to the property deliveries so, as in other postal administrations, this principle seems to suggest modernisation is about mechanization and/or the expansion and/or mechanization of parcel processing capability to meet the growth in on-line ordering of goods. Supporting non-digital people in every community will always be required.

3.4. Providing appropriate coverage of the Post Office network.

The LPO Group supports an "appropriate" coverage of the Post Office network that results in "financial sustainability" but considers that the definition of "appropriate" varies significantly from relatively well-serviced and mobile populations in urban/suburban locations, to that of regional and rural areas.

The complexities of supporting LPO and CPA financial sustainability in regional/rural areas in the face of diminishing business opportunities and the need to continue to service the vulnerable members of the community should not be underestimated and will require considerable discussion prior to any action being implemented.

While Australia Post, as a Government Business Enterprise, is required to operate on a commercial basis, the Government must recognise that the servicing of postal needs, combined with a limited range of other services in rural and remote communities cannot result in a commercially sustainable outcome. Clearly there is an apparent intention to continue to service these communities through community Post Offices, and this in turn, requires external parties to adequately support those services if community Post Office are to remain. As part of the modernisation program, Australia Post and the Federal Government, as its shareholder, must acknowledge that the current inadequacies in remunerating Licensees have resulted in the owners that operate community Post Offices funding Australia Post's Community Service Obligations. Many entities benefit directly from the presence of a community Post Office in these communities (e.g., Financial Institutions, Government Agencies (State and Federal) and National Retailers) and it is incumbent on these organisations via Government oversight to ensure the viability of community Post Offices.

3.5. Reducing Australia Post's operating cost in delivering regulated letter services.

The LPO Group supports the goal to reduce Australia Post's letter operating costs but has reservations that using this process to "free up resources to support parcels" without improvements in productivity or an appropriate alignment of resources, may simply result in a cost transfer that places greater strains on the profitability of the parcels business.

It is difficult to accept that such changes will positively improve Australia Post's financial position, unless it can demonstrate that re-assigning existing staff from letter delivery to parcel delivery will result in increased productivity, or an improved financial outcome.

4. What services provided by Australia Post are most important?

From a Licensee perspective, the services most in demand and deemed important by Australia Post customers are personal banking services, post office boxes, bill payments, identity and verification services, government related services such as new or renewal of passport applications, various state work-cover compliance and accreditations, motor vehicle licences, mail management, letter and parcel acceptance and delivery over the counter.

4.1. Personal and business banking

With the exodus of Financial Institutions from communities and the reduction in services of remaining outlets (banks no longer handling cash in some locations), personal and business banking services provided by community Post Offices are considered critical to the survival of communities across Australia.

As financial institutions continue to abandon their customers in both metropolitan and regional areas, Australia Post remains a somewhat limited provider of their services. Community members quickly find that they are unable to access the same transactions through Australia Post as many banking transactions are not included in the Bank@Post Agreement.

Restrictions on cash limits and other transactions previously conducted at a bank branch mean that all services are not replicated in community Post Offices, and this has led to small business owners having to travel, in some cases, long distances merely to access financial services that were previously available to them locally until a bank closure.

The LPO Group accepts that economic rationalisation, and the need to provide positive outcomes for shareholders, has the inevitable result of service providers abandoning locations throughout the country. In the current environment, with digital alternatives available to a growing portion of the community, we accept that financial institutions operating bank branches in both regional and urban locations is no longer a cost-effective model. However, as a principle we strongly reject the notion that the community should be denied banking services and abandoned simply because it is not cost-effective to fund a branch in a majority of communities. Our communities deserve better.

The LPO Group notes there have been public calls for a Postal Bank to be established to further enhance the Bank@Post service, which could help further support communities everywhere across Australia. While there is much evidence, internationally, of the success of such a banking service, regulatory requirements would appear to inhibit Australia Post becoming a postal bank in its own right. LPOG believes that the Government should establish a rural banking model “The Postal Bank” and, in turn, provide an appropriate range of banking services to the community through the Australia Post network acting as its agent.

4.2. Post Office Boxes

Customers leasing a Post Office Box recognise the value of a secure, reliable delivery point. If Australia Post maintains the current delivery standards for Post Office Boxes while reducing street delivery, those customers who value a 5-day-a-week delivery will find Post Office Boxes more valuable.

4.3. Document verification

This service is sought after at community post offices and is important as individuals or institutions rely on the authenticity of physical documents. Communities cannot depend on the ever-diminishing number of Justices of the Peace to provide this service charitably.

4.4. Passport new / renewal applications

The availability of this service at community Post Offices is seen by the community as an essential service and must remain as long as DFAT relies on the authenticity of physical documents and the in-person verification of an applicant’s identity.

4.5. Letter and parcel acceptance and delivery

The provision of both letters and parcel acceptance and delivery is seen as an integral part of a comprehensive and effective postal network by the community at large.

Although Australia Post competes in a competitive parcel market, it is not unusual for it to be the only provider of the service in some regional and rural locations. The inclusion of parcels into the essential services provided by Australia Post would seem to be imperative in the modernisation process.

4.6. Bill payment and state government services

There is a sizeable portion of the Australian population that, due to lack of ability (physical, mental or emotional), lack of resources (material or financial), or concern over security or privacy, are unable to transact electronically. An inclusive Government would ensure that those citizens’ needs are

accommodated and ensure they are not economically disenfranchised. The Australia Post Retail Network accommodates these people to a large degree and a process or oversight mechanism to ensure these customers are not financially disadvantaged when accessing the network would provide an assurance to the community.

5. What does Australia need in a modern postal service?

Australia is a vast country and the provision of services at a national level always encounters “the tyranny of distance”. The geographic remoteness of the non-urban population makes the cost of transmission interconnection to a national grid very prohibitive. The LPO Group has the view that the wants and needs of the community for modern postal services varies depending on location. A Post Office in a small community is generally the lifeblood of that community and, in the absence of other service providers, there is a greater emphasis on the Post Office to provide additional services that may not be wanted or particularly needed in an urban setting. An example of the services still required now that there has been a further exodus of businesses and entities from rural and regional locations can be found in Rural Transaction Centre program launched in March 1999, as a Commonwealth Government initiative to restore services to rural and regional Australia.

The Program was designed as a grassroots measure to provide funds to help small communities with practical and focused support, and was based on the premise that in some instances the provision of a particular service such as a banking or welfare service may simply not be feasible as a stand-alone operation, but may be viable in conjunction with the provision of a number of other services. In essence, the RTC model was based on the core assumptions that there were extensive economic and community benefits to be gained from the collocation of government, private sector and community services.

The types of services RTCs offered in 1999 and are still wanted today from Post Offices in rural and regional locations include, in addition to services already provided:

- financial services (including business services)
- post, phone, fax, Internet
- Medicare claims
- Centrelink
- facilities for visiting professionals
- printing, secretarial services
- tourism, involvement in employment schemes
- insurance, taxation
- federal, state and local government services.

The LPO Group notes that a small number of RTCs are still in operation, but the need to expand on the provision of these services is growing and is largely unmet in most locations with the community

Post Office network best placed to provide these services. Since the initial proposal of this program, we have seen communities in the United Kingdom losing their Post Offices when the co-located commercial operation closed down. This risk could be mitigated by co-locating banking and other Government services and charging those entities an appropriate access fee.

5.1. Potential benefits

While broadly supported, it is difficult to comment on the benefits from modernisation that can be realised from increasing flexibility and improving reliability for parcel delivery, while making it more convenient and accessible for consumers and business customers, etc. without the provision of specific details on these initiatives. The LPO Group considers that the goals expressed are that of any enterprise competing in an open market that hopes to remain competitive, and relevant to its customers, and is no different for Australia Post. It is well known that Australia Post's overall service performance for both Letters and Parcels is poor, and listing these benefits has the appearance that "modernisation" will be a panacea to issues that should already be well in hand, and a natural consequence of the considerable letter and parcel infrastructure already invested by Australia Post.

Similarly, continuing support for regional and remote communities from a physical network perspective, overwhelmingly falls to the Licensees of privately owned community post offices who provide these benefits at a much lower cost than Corporate Australia Post, while providing much needed local employment opportunities.

Again, without specific details, it is difficult to comment on the view that modernisation will provide a retail presence that meets the needs of communities, and to what degree do these options contribute to the aim of Australia Post's financial sustainability – including tailored formats, expanded services, self-service and mobile options. For example, who meets the cost of "refreshing Post Offices to enable faster customer service and more appealing in-store experience" and given that foot traffic is diminishing in post offices, how is a return on this expense achieved?

5.2. Letter pricing

The LPO group supports a pricing mechanism that allows Australia Post to better recover the costs of providing its letter service. Although it would seem that a differential pricing strategy would be an appropriate mechanism to provide a targeted actual cost recovery model, the principles outlined by the Government that there should be a universal and equitable service would preclude this model being adopted. As such, increases to the current basic postage rate (BPR) should be adopted while retaining appropriate Government oversight. The LPO Group understands that increases to postage prices will hasten the decline in letter volumes so any increase in the BPR must be only sufficient to provide a reasonable cost recovery for Australia Post to ensure the letter service does not collapse. Consideration could be given to increasing the minimum size letter to C5 (instead of DL size) with any lift in the BPR, and linking the Basic Postage Rate (BPR) to the Consumer Price Index (CPI) when the cost recovery model is achieved.

5.3. Letter delivery frequency

The LPO Group gives qualified support for the relaxation of letter delivery frequency requirements, in the face of declining volumes. A change to the legislation to allow a less than five times per week delivery to residences where this frequency currently exists, is supported on the basis that a five times per week delivery is maintained to post office boxes at the existing letter/parcel service standards and the customer promise.

This is a particularly important issue as Post Office Box related services provide a significant portion of licensee revenue, and this service could be destroyed with a reduction in frequency of mail delivered to community Post Offices, or where mail is delivered during trading hours, with the result that mail cannot be sorted by the customer promise of either 8am or 9am sorting completion time.

The retention of the post office box service at the current service standard and customer promise, allows customers to access a five times-per-week service, and is in line with the user pays principle for additional service.

Assuming approval to vary the current legislation to allow a relaxation of letter delivery frequency is given, the LPO Group also considers that an oversight mechanism must be implemented to ensure that savings made from the reduction of letter frequency are put back into the retail network, to ensure its ongoing viability to meet community needs. As mentioned earlier, a process to “free up resources to support parcels” without improvements in productivity or an appropriate alignment of resources, may simply result in a cost transfer that places greater strains on the profitability of the parcels business, in turn, reducing much-needed investment into community Post Offices.

5.4. Unaddressed Mail Service (UMS)

The lower pricing for the unaddressed mail service is based on the premise that there is less handling/processing of the product, and that timeframes for delivery enables the product to be managed in the delivery process at a much lower incremental cost than a letter. Users of the UMS product require the item to be placed in every letterbox, in a specific geographical area, and a change to the delivery frequency also changes this delivery model. The ability to spread the distribution of the UMS product over a five-day timespan to augment the volume of mail received on any given day is reduced. The discussion paper noted that “digital disruption does not appear to be impacting unaddressed mail volumes to the same extent as an addressed letter”.

Clearly though, it is not desirable for a reduced rate product to dictate how the delivery of letters/parcels will be achieved on a particular delivery day, where this additional volume and need to deliver to every household may result in an extended delivery day, leading to additional cost such as overtime rates. Local, state and federal governments rely on UMS to contact households and other institutions also use this service, so the abolition of this product would cause concern for a number of entities. Even a significant rise in the UMS price may be insufficient to cover the actual

cost of delivery and is one of the many difficult issues that will require a resolution as a result of any modernisation program, that seeks improvement in productivity and a reduction in overall cost.

5.5. Impact of further increases in postage rates

Letters, greeting cards and paper bills are an essential part of life for many older, disadvantaged or ordinary Australians who are disengaged from technology. To recognize this aspect, it is sensible to retain the concessional postage rate and extend this concession to all retirees.

As indicated in the discussion paper, businesses and government send 97 per cent of letters but are increasingly using digital communications, with Australia Post today delivering 3 billion less addressed letters than at its peak in 2007-08. Further increases in postage rates invariably support business cases to invest in digital alternatives, or other mechanisms by business and government to communicate to its customers, with the end result that letter volumes decline at an increasing rate.

5.6. Usage of Australia Post's letter services in the next 5 years

As per the previous item, a further decline in the letters business would be expected commensurate with price increases, but there will still be a need for a letter service to reach community members in regional and rural areas, particularly in relation to social mail around the various religious and secular annual celebrations, such as Christmas and Mother's/Father's Day. Lower letter volumes may lead Australia Post to further reduce letter delivery frequency.

6. Letter services

6.1. Consideration in deciding whether to send a letter

Feedback from customers to Licensees has indicated that the effectiveness of a physical mail piece is an important aspect of the decision-making process in sending a letter, with price and other communication methods a secondary consideration. Reliability, consistency in meeting advertised service standards, security in the postal system, and last mile delivery is deemed very important and usually takes precedence over delivery speed. Business and private customers often require proof of delivery when sending important documents.

6.2. Value of the regulated priority letter service

The introduction of the regular and priority letter service some five years ago appeared on the surface as just another evolution of the letter product. The change to the regulations to allow a two-speed letter service resulted in a more costly priority mail option to simply achieve the service standard that was previously applicable to the basic postage rate.

The service standard for letters paid at the basic postage rate was slowed, on the basis that this allowed Australia Post to maintain the existing lower postage rate through savings made in letter processing. This had a twofold effect, the increase in the priority mail postage rate allowed businesses to generate a positive business case to update the necessary software and hardware needed to progress into digital channels, ensuring the take up of priority was minimal or reduced over time.

It is understood that the service standard achieved on this product by Australia Post was well below expectations, and so businesses sought other alternatives to this service. Equally, the lower speed letters could then be delivered in a two-day period once received at a delivery centre and, using volume data, be seen as a reason for Australia Post to state that customer preference was now for a less than five times a week delivery due to their acceptance of the lower standard of delivery.

It is obvious to the LPO Group that this strategy has now borne fruit in that the elimination of the priority service can be justified in a modernisation program as a necessary measure in support of a reduced delivery frequency model. Indications are that Post Offices sell very few priority labels but do see a market for the Letters with Tracking.

The LPO Group considers that the elimination or deregulation of the priority letter service, should it be contemplated, should also be accompanied by an effective basic letter service performance measure greater than the current 94%, (a standard that was not achieved by Australia Post this year).

6.3. Expected decline in the number of letters being delivered

A change to the legislation to allow a less than five times per week delivery to residences where this frequency current exists, is supported on the basis that a five times per week delivery is maintained to post office boxes at the existing letter/parcel service standards and the customer promise.

In the absence of specific details on Australia Post's proposed letter delivery frequency in those locations where there is an existing five times per week delivery, it is assumed that the modernisation process will result in approval for a letter delivery of either three times per week or five times per fortnight delivery model.

This model would appear to be a suitable compromise between the need to reduce the cost of letter delivery, and the importance of physical mail to the community at the present time, provided that a five times per week delivery is maintained to post office boxes located at post offices.

The further decline in letter volumes expected with price increases and increased digitalisation will place additional pressure on the reduction of letter delivery frequency. Extensive community consultation would be required in those circumstances regarding the minimum delivery frequency of letters that would meet the needs of the community.

7. Parcel services

7.1. Response to questions 9 to 12 from a Licensee perspective

Parcel revenue has become an important remuneration stream for Licensees as it helps support their financial viability. The acceptance and delivery of parcels to and from customers in community Post Offices increases foot traffic, potentially resulting in increased retail sales of impulse products, complementary products, and Australia Post core packaging and supplementary products.

Post Office Boxes are also a safe and cost-effective method of delivering parcels to customers.

Customers cite the Australia Post parcel service features that matter the most to them as:

- Cost-effective
- Knowledge that my parcels are stored securely at the post office
- Knowledge that my item will be returned to the Post office if safe delivery cannot be achieved and returned to sender if the item is not collected
- Local collection at the Post Office is easily accessible where a failed “to the door” delivery has occurred.
- Reliable prompt service as many customers have related the experience of receiving a parcel from interstate faster than a letter across town
- Ability to track my Item
- Prompt service
- Notification of delivery date
- Ability to insure valuable items
- Signature on delivery essential for important and valuable items

8. Future outlook and opportunities

8.1. Importance of the Post Office to individuals, business and communities

The LPO Group resolutely believes that community Post Offices are part of the Australian Government’s critical infrastructure serving Australia and that the overwhelming feedback from Australians to the Government will emphasise how individuals, businesses and communities rely on the access to important services, especially as many organisations, including Banks, have deserted the regions as they push digitalization, that the Postal Network provides.

8.2. Other facilities

The LPO Group has the view that the provision of facilities such as parcel lockers, vending machines, payment terminals or mobile Post Offices in appropriate locations tend to fill the gap in

services for some members of the community but is not generally viewed as a total replacement of physical face to face services. Parcel lockers for instance, provide access to after-hours parcel delivery for customers, but have a limitation in size and in some instances contents, so that not all parcels can be delivered through this facility. Additionally, some providers do not accept a parcel locker as a valid address, further reducing their value as a complete solution to parcel delivery. Similarly, mobile post offices rely on people driving to the mobile location at a prescribed time and place and so does not provide a total solution in the absence of a face-to-face service. In essence, while these facilities may provide a point of presence, they will be insufficient to satisfy the community at large, should a community Post Office close, or be closed, as part of the modernisation process.

8.3. Are there other services Australia Post could provide to better support the community?

The LPO Group has responded to this question under the heading “What does Australia need in a modern postal service?”

9. Challenges and opportunities from a Licensee perspective

The owners of community Post Offices understand that the success of the business is a two-way street. They rely on Australia Post to capture, maintain and grow its business using the retail network that represents the largest bricks and mortar network in the country and, by default, a competitive advantage for Australia Post in a competitive marketplace. Conversely, Australia Post relies on Licensees to reduce cost to the Corporation by investing in its retail network, while providing customer service and network reach that satisfies community expectations and a competitive advantage in the marketplace.

9.1. Post Office Boxes

Licensees have expressed concern over whether Australia Post will attempt to cut costs by delivering mail and parcels to metropolitan and large provincial post offices after they open at 9am, for a delivery standard of 12 noon or later to Post Office Boxes and counter mail. Currently mail is delivered to LPOs from 6am for a 9am delivery standard (an 8am standard at corporate offices) and this process ensures prompt delivery of mail and parcels to PO Box holders, who pay a post office box premium for this service.

The impact to Licensees is then threefold. Where mail was being delivered prior to 8am to ensure the volumes of mail could be sorted by the 9am standard, they are deprived of a per hour Mail Service Payment, (the overtime rate for a postie) plus they must now employ additional labour at additional cost, to sort the mail as they are required to still open the doors to serve customers at 9am. A 12 noon service standard for post office boxes will lead to cancellations by customers as

their needs are no longer being met. These anticipated cancellations will directly lead to less income for the Licensee. In this way, Australia Post would seek to reduce its own costs by transferring an even higher cost onto the Licensee, who will also receive a reduction in their income at the same time.

Such a strategy seems at odds with the aim of this review to Modernise the Australia Post Network. The current Post Office Box service exemplifies a product that effectively reduces costs, enhances reliability, and sustains the retail network's viability while epitomising a "user pays" model.

9.2. Parcel lockers

Australia Post has installed parcel lockers in many locations ranging from Woolworths, 7/11 stores and service stations and to some Post Offices. Depending on the location, some parcel locker installations are over-subscribed while many are under-utilised. The LPO Group understands parcel lockers at the stores mentioned are being withdrawn and the reason given is that the cost of servicing the parcel lockers is not met by the revenue gained. Logic suggests that the ideal location of a parcel locker is either within, or in the immediate vicinity of a Post Office. Feedback to the LPO Group from the few Licensees where parcel lockers are installed, indicates that while licensees understand the benefits that parcel lockers bring in relation to after-hours service, there is no economic benefit to them, due to the current payment structure. While the work of servicing a parcel locker is the equivalent of a licensee delivering an over-the-counter parcel, payment for the parcel locker component is approximately half that of the counter delivery. A specific example can be provided separately should it be required. The expansion of parcel lockers as a "point of presence" is listed as a benefit of the modernisation program. The success of this option will largely depend on Australia Post finding a resolution to the disincentive it has put in place for expansion to community Post Offices.

9.3. Transaction based payment scheme

Licensees are also concerned that the payment received for work undertaken on behalf of Australia Post is insufficient to cover costs incurred in terms of labour and accommodation costs. By way of example, Licensees and their employees fall under General Retail Industry Award (GRIA) which encompasses 8 tiers. Australia Post Retail employees are covered under the provisions of their EBA. An Australia Post employee working on a corporate retail counter is paid at a theoretical level 28 of GRIA, whereas discussion with Australia Post regarding appropriate payment for Licensees is focused on a GRIA level 4 at an "efficient" transaction time. Any downtime experienced while customers walk slowly to the counter, while they are on their phone, ask for advice, change their mind, or can't find the right credit card or change, is paid for by the Licensee.

Equally, the nature of the business conducted at Licensed Post Office counters has changed over time, while the payments from Australia Post don't necessarily reflect the complexity. For instance, the acceptance of a parcel ten years ago involved three steps to complete, and this same process

now involves some 18 steps, yet the commission percentage is still the same. The decline of the Letter business has led to more involved transactions such as land title verifications, passport applications etc. in turn leading to increased training and compliance measures for both Licensees and their staff, that is not reflected in “efficient transaction” payments made by Australia Post. The training required to complete these more complex transactions is also a cost that must be met by the Licensees.

With the decline of the traditional Letters business, LPOG understands that Australia Post largely now operates in a competitive environment and must react to competitive pressures, e.g., in reducing costs or prices to maintain market share. These actions at a corporate level shouldn't be to the disadvantage of individual Licensees who are providing services to the community, as well as seeking a return on their investment into the network.

Community Post Offices are currently experiencing less foot traffic and a decline in most services, while rises in costs have not been matched by increases in payment for services. By its own reporting, it is evident that Australia Post parcel revenues slowed in the second half of 2022 and have shrunk in the first half of 2023, when other operators were reporting strong growth.

Clearly, a “one size fits all” approach is not appropriate to a disparate network, and payment for individual work elements should be fair and equitable across comparable outlets. Remuneration to Licensees should reward effort to grow the business but not at the expense of customer service, format presentation or to the detriment of other segments of the network.

Modernisation is urgently needed to enable Licensees to obtain a reasonable return on their expense, where the outlet is operated in accordance with the franchise arrangement entered into.

There are many current examples where the cost to serve the community for the Licensee is greater than the revenue derived from the number of transactions at the LPO. This shortfall is absorbed by the Licensee to remain open, and often results in a Licensee working 50 – 60 hours per week, for far less than a minimum wage.

LPOG supports the concept of a return on expense payment method to correctly remunerate LPOs to compensate for the expectation that Australia Post has exclusive access to the privately funded LPO network infrastructure, and the designated working hours under the current LPO Agreement.

The alternative would be for every LPO to receive the base payment to meet accommodation and overhead costs set by using national benchmarks, together with a payment equivalent to a Postal Manager wage for the Licensees to attend the outlet.

The figure most recently quoted by Australia Post that it “pays” Licensees \$519M contains a GST element, and also a theoretical amount provided as a discount to Licensees for Australia Post products, that may not be actually realised by the Licensee. It is very common for Australia Post to reduce the margin on products sold through its corporate network, and a Licensee may choose to match this price (or have this product sit on the shelves) while Australia Post claims the original

discount as a payment to the Licensee. Once these deductions are made and divided by 2820 LPOs, the amount is an average of \$140K, from which a Licensee must pay all overhead costs of accommodation, electricity etc. as well as staff, themselves and gain a return on their investment.

9.4. Retail network

The LPO network is a disparate one where there is a significant variation in format, presentation and customer transaction levels. This becomes problematic when an accompanying payment scheme relies largely on transaction levels as a basis of payment.

There are many reasons for this disparity, CSO compliance requirements, lack of choice of licensees in particular locations, ineffective application of standards that are either not clearly defined or are unrealistic when applied to the expected ROI and /or format, e.g., in-conjunction where volume of business is low/very low. It is painfully evident that the current network over provides the community in many locations and a revision of the size of the network in line with a revised CSO / Service Charter must be undertaken at the same time as LPO payment reform to ensure the ongoing viability of the retail network.

Customer preferences in an increasingly digital world, and the divide between technology adopters and non-tech-savvy customer has impacted the overall Corporate/LPO retail network demand. Combined with increased costs, particularly for corporate outlets situated in largely urban/suburban shopping centres, with their labour costs driven upwards by successive EBA increases, and where foot traffic is declining, creates the need to offer different customer choices according to location and demographics.

Rather than seeking additional goods and services to serve in these retail outlets to offset the reduction in Australia Posts' traditional business, attention has been focused on reducing services and costs in a futile search for financial viability.

Failing any success in growing business income it would seem an ideal retail network would consist of 5% corporately owned Post Offices, with the remaining outlets owner/operated under a franchise system/s that take into account the particular business environment where the outlet is located.

The LPO Group has the perspective that, at some point, changes in consumer preferences will require a realignment of the current retail network. The needs and wants of rural versus urban consumers require both a clear short- and longer-term strategy, to enable a viable network to service the community at large.

Licensees make longer-term decisions in relation to such things as ten-year leases, but do not have a clear idea of whether the location and format of their outlet will be appropriate, and this may be to their disadvantage in the future.

9.5. Universal last mile access for all community members

To date, Australia Post has failed to remunerate Licensees for its exclusive rights to the privately owned infrastructure of community Post Offices by way of a significant increase in the Representation Allowance, or another appropriate payment mechanism such as the Access Fee that it charges financial institutions. In the face of this constant refusal, the LPO Group proposes the concept of opening up the network to provide last-mile services to every community member, regardless of the method of delivery. Given its substantial position in the marketplace, most online shoppers expect their parcels to be delivered via the Post Office, and many rural communities are disadvantaged by community Post Offices' inability to provide an alternative last mile delivery due to restrictions placed into the LPO Agreement by Australia Post.

The role of community Post Offices needs to develop to remain sustainable, as they were originally established to support the letter network. In the absence of any plan to maintain or increase the services provided by community Post Offices, the denial of the opportunity to partner with other providers to Licensees, restricts the ability of Licensees to grow and protect their business.

Australia Post allows access to other service providers, such as banks, insurance companies and telco's, which provide an important revenue stream and protect services in local communities. Bank@Post is a good example of how providing access, can create benefits to all at a fair cost.

Restricting access to community Post Offices, holds back competitive services in regional & rural Australia, the growth of ecommerce in Australia, and importantly leaves the local community Post Offices without an important role. Ironically, Australia Post uses alternative last mile options, such as Hubbed, Woolworths and PUDO locations, even in the same postcodes they have a community Post Office. They are accepting deliveries to alternative services in direct competition to their own network, but Licensees are not allowed to work with other parcel companies to provide their "last mile solutions".

Opening up access to community Post Offices has many benefits including:

- Provides an important income that can help protect their viability in the event letters fall further and other AP services do not grow adequately.
- Supports the growth of ecommerce, especially when retailers are struggling, whilst Australia Post delivery times to regional & rural Australia do not provide a compelling offering.
- Provides last mile solutions that customers and communities want and expect.

9.6. Reduction in the value of Licensed Post Offices

LPOG is extremely concerned that the implementation of a permanent reduction of home deliveries in metropolitan and large provincial areas, the easing of the current performance standards and other proposed cost-saving initiatives, may result in a severe devaluation of licensed Post Offices

unless steps are taken to protect the substantial small business investment in the retail network made by Licensees.

Since none of the past, or potential future actions, by Australia Post have been detailed in any Disclosure Document issued by Australia Post, either at the commencement of a new LPO Agreement, or on request from an existing Licensee, a requirement under the franchising Code of Conduct, it is impossible for a potential or current Licensee to consider what the impacts of these actions may be on the value of their Licence.

Unless there are compelling reasons to do so, and this includes an appropriate return on expense, quality potential Licensees will simply go elsewhere to get a better return on their investment. This, in turn, creates the issue of current Licensees wanting to sell their business, where there is little interest from prospective buyers to achieve a successful sale. The LPO Group has not been informed of any current or future plans by Australia Post to add value to the retail business, in terms of profitable business opportunities, or increased foot traffic generation.

9.7. Board representation

Licensees have invested significant funds into the Australia Post retail network, and yet there is no recognition of this fact in Board membership, nor any consideration that any impacts should be discussed with the LPO Group, or Licensees in general. For decades Licensed Post Offices have been viewed in the accounts of Australia Post as an expense. There is no revenue category to offset that expense which would provide clarity to the business stakeholders, either at the Board or Shareholder Minister level. The result of this lack of disclosure is a constant drive to reduce that expense by reducing revenue paid to Licensees. Even the recently appointed CEO of Australia Post is content to defend the payments made to Licensees in terms of the net expense to the business. At no time is the contribution of the LPO Network included in the narrative. This has a very negative impact on the culture of the business, and results in constant undermining and cost-cutting of the LPO Network revenue as the first point of call when budget constraints are required. Appropriate Board representation is urgently required to address this situation, as it appears that Australia Post's management is incapable of doing so.

10. How can Australia Post best support the community?

The discussion paper has outlined the support that Australia Post currently provides for Australians with diverse needs, including discounted letter pricing for concession card holders, and charities and other actions or services in relation to people with disabilities, and those who have been marginalised for whatever reason. It is clear that the Government wants Australia Post to continue to play a role in supporting Australians with diverse needs, but doesn't provide a view on how these should be achieved under a modernisation program.

As a Government Business Enterprise, Australia Post is required to act consistently with sound commercial practice, so far as practicable, yet the decision to provide a service, or discounted pricing, in the context of meeting diverse needs cannot be considered entirely within a commercial context. However, if the Government believes it is essential to offer a service in areas where it is not commercially viable, but benefits the public, it cannot reasonably expect a private individual or business to shoulder the cost of providing that service.

As such, the LPO Group considers that the inclusion of these services as a Community Service Obligation would prove to be problematic. As an alternative, the Government should consider the implementation of a process where the costs associated with the provision of these community service obligations are understood and ensure that Australia Post and its Licensees are not financially disadvantaged as a result.