

I Terry Anthony Ashcroft make the following Submission in support of Australia Post's proposed increase in the Base Postage Rate from 70cents to \$1.

MY BACKGROUND

My name is Terry Anthony Ashcroft and I am the principal of Harold A Ashcroft Real Estate & Business Agents located at Shop 3 South Parade Campsie NSW 2194 which was established by my late father in 1935. The Business of Harold A Ashcroft Business and Real Estate Agents since 1935 on the most part has involved the assessment, listing and sale of Post Office and Post Office store businesses on behalf of the owner Vendors including on one occasion on behalf of Australia Post. I have been the principal of this business agency since the death of my father in 1977 and since that time I have personally sold and handled the sale of approximately 1280 Post Office Businesses and PO Stores.

When I first started selling and assessing post office businesses they were called Non Official Post Offices under an old historic structure of crown appointment and in 1985 the system of operation was updated into a contractual agreement with privately owned Post Offices now being referred to as Post Office Agencies. After the incorporation of Australia Post in 1989 I was involved with both Australia Post and the Post Office Agents Association in a consultative capacity with regard to the modernisation of the Post Office Agency system into the Licensed Post Office Agreement which was completed and formalized in April of 1993. For over 40 years now I have been closely associated with Post Office Agencies and Licensed Post Offices in all aspects of there assessment, sale, rights obligations and contractual responsibilities and Licensee rights and obligations under the Licensed Post Office Agreement, LPO manual and implementation manual. I am the one person most licensee's turn to in order to obtain accurate advice as to the rights, obligations, requirements and payments under the current LPO Agreement. I have a wealth of experience in this area and have personal historic knowledge and experience that predates all current Australia Post staff in the Licensed Post Office area.

My close association with the sale of Licensed Post Offices gives me a unique overview of the financial viability and future of Licensed Post Office's and the forces as well as issues that threaten there future and viability.

CURRENT FINANCIAL VIABILITY OF LICENSED POST OFFICE'S

The majority of small and particularly small to medium sized rural LPO's in Australia today are basically financially unviable if award wages were to be paid to the owner Licensee for their labour and on this basis almost half of Australia Posts 2909 LPO's run at a substantial loss. In doing so LPO Licensee's have subsidised and continue to subsidise the profitability of Australia Post and their communities in meeting Australia Post current service obligations. LPO's decline in terms of trade has been ongoing and increasing over the last 10 years. There has been some small decline in the volume of small letters and bill pay but the principal reasons for LPO declining profitability has been the gross underpayment by Australia Post for services provided by Licensee's to Australia Post, increased AP work and processing demands as well as significant increases in costs mainly labour. If Licensee's had received fair payment for services provided in recent times Australia Post's past declared profitability would have been greatly reduced.

REASONS FOR DECLINING TERMS OF TRADE IN LPO's

The reasons for underpayment of LPO Licensee's are many and complex but the main reason is that in many cases 50% of LPO Business Revenue (62% for most rural LPO's) is linked as to increases in payments made to the Base Postage Rate under the LPO Agreement. These payments include payments made by AP to Licensee's for PO Boxes, Mail management, carded articles and some others. The Base Postage Rate has increased over the last 23 years from 45 cent to 70 cents and if you exclude GST this is an increase of only just over 42%. Inflation over this period was approximately 80% and labour costs have increased by over 115% not to mention improvements to labour conditions. Added to this AP has introduced further work requirements to licensee's without adequate remuneration over a whole range of functions relating but not limited to tracking and processing mail. Small letter mail volumes may be in decline but large letter and parcel volumes are increasing with overall work requirements increasing in most LPO's. We have a situation of more work with less pay and this situation cannot be sustained and will eventuate if not addressed in the failure and closure of many small LPO's seriously affecting Australia Posts capacities in servicing particularly rural Australia. Australia Post does not have a future unless it retains a viable retail network throughout Australia.

EXAMPLE

Back in 1993 LPO's were paid \$50 p.a to provide a small PO Box on behalf of AP to an AP PO Box customer, at that time AP charged the customer \$35 p.a for the box and service to it. Now today LPO's receive \$77.78 per small PO Box provided ex GST and Australia Post charges the customer \$109.09 ex GST. AP can and have justified the increases in the cost to the public of the PO Box but LPO's have been left behind because their payment is linked to the Base Postage rate which has only risen by a bit over 42% in 22 years if you exclude GST. With the BPR increasing from 70 cents to \$1 this will increase the payment to LPO's for that small PO Box from \$77.78 to \$111.06 more in line with where it should be today.

COMMENT

In order to restore and maintain some financial viability to the majority of LPO's it is essential that the Base Postage rate has to increase to \$1 in order to increase those payments made to Licensees linked to the BPR to somewhere close to where they should be today in order for Licensee's to survive and meet their increased costs and obligations under the LPO Agreement. Unless the full increase in the BPR is approved many smaller mainly rural LPO's and LPO's in lower income residential areas will be forced to close. If we do not see an increase in the BPR to at least \$1 we will face a long term collapse of the LPO network which will undermine the profitable future of Australia Post and increase dramatically AP's costs of meeting its community service obligations. This will be to the loss of the Australian public and a loss and burden to the Australian Government.

SOME REASONS THAT SUPPORT THE INCREASE OF THE BPR TO \$1

- This increase in the BPR will increase those payments linked to the BPR to a level where financial futures for LPO's are close to being sustainable.
- With reduced small letter volumes AP is and will suffer reduced economies of scale in

making household mail delivery's on a 5 day a week basis. If the BPR is not increased AP will be forced to reduce mail delivery frequency in city areas from 5 days a week to 3 days a week and in many rural areas mail deliver on a roadside basis could cease and be directed to community mail pick up points. AP will need to cut costs in order to reduce losses.

- Failure to increase the BPR to \$1 will increase AP's losses adding significant financial burden on AP and on the Federal Governments budget as well as the Australian public through reduced services especially in remote and rural areas. Such losses would impact negatively on AP's retail network and put the business model of the majority of LPO's in a position of economic failure or collapse.
- If the BPR is not approved to \$1 AP will be forced to increase postage rates that are not regulated dramatically at significant cost to the public and business resulting in a negative economic impact to our current fragile economy.
- The current Base Postage rate of 70 cents does not cover AP's true costs of providing the service and at the new rate of \$1 it is more likely than not that the new BPR rate will still not meet the full cost of providing the service. The Australian people and Government cannot expect AP and its LPO licensees to continue to subsidise this service as business dictates that in order to continue a service you have to at least cover your costs or be financially subsidised and if not the business will fail.
- The BPR needs to be increased to at least \$1 in order to help sustain AP's community service obligations to Australian's living in rural and remote areas.
- Small letter volumes may continue to decline but on the other hand with Australia's increase in population of about 1.7% to 1.9% per year the number of households serviced by Australia post is increasing steadily producing a declining economy of scale with regards to mail items delivered per delivery point. Here AP faces more work for less pay because of declining volume and this extra cost has to be paid for by the increase in the BPR. In these circumstances \$1 is not unreasonable.
- On a comparison basis a base postage rate of \$1 in Australia is not expensive compared to the base postage rates of other countries like Canada UK USA etc. When you then compare the size of Australia, mail volumes, our population as well as distances covered in order to deliver mail then a BPR of \$1 in Australia is indeed very low.
- The rise of digital communications has resulted in the number of letters delivered per household to fall by one-third since volumes peaked in 2008. That migration has happened regardless of stamp prices and stamp price changes.
- As Australians age the level of skills required to interact via technology becomes more and more challenging. It is vital that the community retains services for people with these challenges.
- Can you imagine not getting a pay rise for the best part of 10 years? That's what happened to LPO Licensees when the BPR was stuck at 45 cents (1992 - 2003). Having over 50% of LPO fees and commissions linked to the BPR has had a detrimental effect LPO payments. The increase in the BPR to \$1 will go a long way to keep LPOs financially viable. Australians have benefitted from one of the cheapest domestic postal rates in the world for many years and most of AP's customers are willing to pay \$1 for a stamp if it means that their local post office stays open for business.
- Small letters are declining as well as billpay but neither will ever disappear but

will just become less important in Australia Post business mix. Australia Post has continued to evolve and change over the last 114 years and will go on evolving and changing in the future. One door gradually closes and on the other side other doors and opportunities open and evolve. Australia Post needs the revenue increase in the BPR to \$1 in order to survive and maintain its network while it accesses and develops new products and services that will help underpin its future.

- Australia Post's greatest asset is its expansive retail network covering all of Australia. Just under 80% of its Post Office Network are Licensed Post Offices with skilled and trained Licensee's dedicated to the service of their local communities. These dedicated licensee's deserve to survive and prosper long into the future and the increase of the BPR to \$1 is just one of the vital steps needed to secure that future.

I have tried to outline my basic reasons for the support of the increase in the Base Postage Rate to \$1 but the ACCC needs to take on board that even though this increase from 70 cent to \$1 is a large increase it is really only the basic catch up based on inflation over the last 23 years and really does not take into account the changing and declining economies of delivery that are facing AP now and into the future.

The ACCC also needs to be aware that the future viability of over 2900 LPO's is now in the balance as explained, and if the BPR is not approved in full to \$1 these 2900 LPO's will face a bleak and uncertain economic future where they will carry a significant loss in order to provide and sustain the Australia Post services the public rely on to their communities.

Please feel free to contact me if you have any questions or require any further information.

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TERRY A ASHCROFT
REAL ESTATE & BUSINESS AGENT
Shop 3 South Parade
CAMPSIE NSW 2194
PO Box 37 CAMPSIE 2194
Tel: 97183137 FAX 97182187
M: 0429183137
Email taash@bigpond.com