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Submission

Postal Services Modernisation

Discussion Paper

April 2023

[CEPU] Communication Electrical Electronic Energy Information Postal Plumbing and Allied Services Union of Australia

Communication Workers Union Division [CWU]

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The CWU and its members thank the Department for the opportunity to make this submission.

Definitions

CEPU Communications Electrical Electronic Energy Information Postal Plumbing & Allied Services Union of Australia.

CWU Communication Workers Union, or, Communication Workers Union Division of the CEPU.

Australia Post Australian Postal Corporation.

ADM Alternate Day Delivery Model, implemented between 15 May 2020 and 30 June 2021.

CSO Community Service Obligations

2020 Regulations Australian Postal Corporation (Performance Standards) Amendment (2020 Measures No. 1) Regulations 2020.

About the CWU

The Communications Electrical Electric Electronic Energy Information Postal Plumbing and Allied Services Union of Australia [CEPU] is a national Union representing workers across the wider communications, electrical and plumbing industries.

The CEPU was formed in 1994 following the amalgamation of the Communication Workers Union of Australia (CWU) with the Electrical Trades Union (ETU) and the Plumbing and Gasfitters Employees' Union (PGEU/PTEU) and operates under an autonomous divisional structure.

The Communications Division, known as the Communication Workers Union (CWU), has coverage of and represents workers across today's postal, telecommunications and information technology industries.

> **1912** the Australian Letter Carriers' Association and the Australian Telegraph, Telephone Construction & Maintenance Union (later known as the Australian Postal Linesmen Union of Australia) were both registered federally
>
> **1924** the Australian Letter Carriers' Association changed its name to the Commonwealth Public Service Fourth Division Employees' Union of Australia only to amalgamate a year later with the Postal Sorters' Union of Australia and the Australian Postal Linesmen Union of Australia to form the Amalgamated Postal Linesmen Sorters' & Letter Carriers' Union of Australia
>
> **1926** the newly amalgamated Union becomes known as the Amalgamated Postal Workers' Union (APWU), covering posties, mail sorters and telecommunications linesmen.
>
> **1974** the APWU amalgamated with the Union of Postal Clerks and Telegraphists (UPT) to become the Australian Postal & Telecommunications Union (APTU)
>
> **1990** the APTU amalgamated with the Australian Postmasters' Association and later the Postal Supervisory Officers' Association to eventually be known as the Communication Workers Union (CWU). The Australian Telecommunications Employee Association/Australian Telephone & Phonogram Officers Association (ATEA/ATPOA) and the Telecommunication Officers Association (TOA) later amalgamated with the CWU. The ATEA retained autonomy in a divisional structure, whilst the TOA was absorbed by APTU originating Branches.
>
> **1994** the CWU amalgamated with the Electrical Electronic Plumbing & Allied Workers Union of Australia, the end product of a merger between the ETU and the PGEU/PTEU a year earlier, to form the Communications Electrical Electronic Energy Information Postal Plumbing & Allied Services Union of Australia (CEPU)

Background

In March 2023, the Federal Government released a discussion paper, inviting responses from the public to a consultation process about the future regulation and operation of Australia Post.

The CWU broadly agrees with the principles outlined in the discussion paper, which are as follow:

- *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.*

This submission is primarily concerned with the regulation of service delivery and any proposed changes to the Community Service Obligations that regulate postal deliveries; with the financial viability of post offices (corporate post offices and licensed post offices, or LPOs), especially in regional and rural Australia; and with the issues of competition with private providers in the parcel delivery market and the impact of this market on service standards and costs within Australia Post.

We also attach an appendix to this submission, outlining the failures of the Alterative Delivery Model (ADM) during its implementation in 2020 – 2021, which should inform the Government's consideration of any future changes to regulations governing delivery times and scheduled within Australia Post.

Introduction

The CWU welcomes the opportunity to provide this submission to the Government's consultation about Postal Services Modernisation.

Australia Post is one of the nation's most trusted and valued public institutions. A national postal service has existed since Federation in 1901, when the Post-Master General's Department was established. The PMG operated for three-quarters of a century, keeping Australians connected throughout our country and across the world until its replacement in 1975 by the Australian Postal Commission.

In its current form, Australia Post has operated a world-class postal service, spanning our vast landmass, since the establishment of the Australian Postal Corporation as a Government Business Enterprise in 1989.

Australia Post has maintained a reliable, secure and trusted public service to the Australian people for almost 120 years, maintaining the essential lines of communication through two world wars and the Great Depression. It survived, and has thrived, since the advent of digital communications in the early 2000s, while many other public postal services around the world surrendered to the forces of privatisation and the shift to online communications.

Today, Australia Post operates three core business areas: letters and associated services; parcels and logistics; and retail merchandise and agency, government and identity services.

In the last 35 years, only once has Australia Post recorded a financial loss: in the 2014-2015 financial year, as its reserved letters service was hit by a severe decline when the adoption of email reached a critical mass. Yet in the face of this great digital disruption, Australia Post adapted its business model quickly, with minimal loss of service or jobs, and returned to profitability on the back of a strategic investment in its parcel delivery and courier services.

However, as noted in the consultation's discussion paper, released in March 2023:

> *On 8 February 2023, Australia Post reported a significant deterioration in its financial position, including a record first-half letters loss before tax of $189.7 million. Australia Post will report a full financial year loss in 2022-23, the first annual loss since 2015.*

Nevertheless, Australia Post has a strong history as a cost-positive Government Business Enterprise, funding its operations entirely through revenue, and returning a dividend to the Federal Government in every year other than 2014-2015 since its incorporation more than three decades ago.

The Corporation has, throughout that time, adhered to the community service obligations set out in the Australian Postal Corporation Act 1989, and which are outlined in detail in the consultation discussion paper, delivering mail articles to Australians five days per week, wherever they live.

Australia Post delivers to more than 10 million Australian addresses, across almost 8,000 postal routes that are serviced by more than 10,000 "posties". It operates almost 7,000 retail outlets nation-wide, serving more than one million customers per day, and provides such essential services as bill payments and financial transactions, passport applications, identity verification and secure parcel delivery and collection.

It maintains over 4,326 post offices across the country and directly, and indirectly, employs over 80,000 Australian workers.

Australia Post is a treasured national institution, essential to Australia's prosperity and security. Its future must be safeguarded and strengthened in the interests of all Australians.

The rationale for regulatory changes

The Postal Services Modernisation consultation discussion paper ("the paper") notes that "the estimated cost of Australia Post's Community Service Obligations was $348.5 million in 2021-22" and asserts that "the existing Community Service Obligations are no longer financially sustainable and are not well targeted at the needs of Australians due to changes brought about by the digitisation of the economy".

It is true that, like postal services around the world, the decline of the regulated letters business has had a significant impact on the revenue and profits of Australia Post.

The CWU agrees that the regulation of community service obligations must be updated to recognise the developments in technology that have seen the vast majority of communications shift away from letters to online delivery.

Five days per week delivery remains critically important

However, the recent experience of the Alternate Day Delivery Model (ADM), between May 2020 and June 2021, demonstrates the folly of reducing the delivery service substantially, particularly in terms of the frequency of deliveries to individual delivery points, especially given the significant increase in parcel deliveries as people take advantage of those same technological developments to utilise online shopping for products as diverse as food, pharmaceuticals, consumer goods and clothing.

Under the ADM, Australia Post was unable to meet its relaxed regulatory obligations. This extended beyond the regulated letters service and also impacted non-reserved and commercially competitive services such as Express Post and the parcels service, the service standards of which deteriorated significantly under the ADM.

Australia Post's delivery network has never completely recovered from impacts of the ADM, particularly in terms of staffing, and unilaterally circumvents its current obligations to the public by failing to deliver hundreds of delivery rounds, daily – despite the decline in regulated product volumes.

It must also be considered that, unlike the majority of its overseas counterparts – particularly those in overall rapid decline, Australia Post's strategic investments in parcel delivery capability has firmly entrenched the Corporation as the dominant domestic parcel carrier. If managed appropriately, this market position will continue to provide a growing, profitable revenue stream as eCommerce driven demand expands.

The regulated frequency of delivery by Australia Post protects the community's universal access to efficient and affordable delivery services of all postal articles, including parcels.

Without this regulated service requirement, we risk seeing a "race to the bottom" in terms of service provision and universal affordability, driven by private sector competitors in the field of parcel delivery, which already includes commercially competitive flat-rate parcel and express services.

The CWU therefore strongly advocates for the retention of a five-day-per-week delivery service.

It is our firm view that, if the regulation of the letters service is to be considered, the community service obligations must guarantee a five-day-per-week delivery service frequency, and that serious consideration should be given to even expanding that to six days, to support growing parcel delivery capacity.

A trial of a new hybrid letter/parcel delivery model is currently underway at the Hornsby Delivery Centre in NSW.

This trial still requires one postie per delivery round, but with rounds 20-30% larger. However, the delivery of letters will be limited to just one half of the round, each day, whilst premium and other non-reserved articles, including parcels, will continue to be delivered to all delivery points across the entire round, daily.

The trial is being closely monitored to ensure health and safety is not impacted, and to examine:

1. Whether efficiency can be achieved through a balance of improved density through a heavier volume half, and speed, through a lighter volume half;
2. Delivery points and run sizes; and
3. Any changes required to supporting infrastructure.

This model, if successful, will significantly increase Australia Post's parcel delivery capacity by posties employed in meaningful, gainful and secure employment.

The CWU strongly suggests that the outcome of this trial, which will be known in June 2023, be taken into account by the Government when considering any changes to delivery regulations.

An Australia Post with reduced delivery obligations would be detrimental to regional and rural customers, and disastrous to Australia Post's market position: without the legislated service standards afforded by Australia Post's CSOs, it is almost certain that private parcel carriers would act quickly to carve lucrative metropolitan markets, leaving the unprofitable regional and rural business to a much-reduced Australia Post to service. This would reduce Australia Post's profitability, and lead to demands on the Government to directly fund expensive, stand-alone delivery services for regional and rural Australia.

The ADM was a failure

The CWU wishes to directly address the following statement from the discussion paper:

> ***Temporary changes to frequency and speed during COVID-19***
>
> *In response to the operating constraints and limitations of providing postal services resulting from the onset of COVID-19, 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 (every business day to every second day business day), reducing intrastate delivery speed by increasing the maximum intrastate letter delivery timeframe to 5 business days, and allowing Post Offices to close where needed to keep team members safe from COVID-19. The lack of consultation in the design and implementation of the changes caused operational challenges and inefficiencies, with impacts on the workforce. This highlights the importance of consultation to longer-*

> *term approaches. Additionally, over this period the manually intensive priority letter service was suspended and parts of the Australia Post workforce were temporarily redeployed to support Australia's increasing demand for parcel services. The Performance Standards reverted to pre- COVID-19 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.***

The CWU strongly rejects the characterisation of the experience of postal workers and customers under the ADM between May 2020 and June 2021. The last sentence, in particular, is a *non sequitur*: the paper acknowledges that the lack of consultation on design and implementation of the changed regulations "caused operational challenges and inefficiencies, with impacts on the workforce", yet goes on to state that the ADM demonstrated a "capacity…to adapt to new delivery models while ensuring letter services were maintained".

This is demonstrably false. The ADM disrupted services across the country, resulting in long delays in the delivery of letters, premium articles and parcels. The workforce was placed under unreasonable and unnecessary pressure with poor outcomes in terms of workplace safety, unreasonable hours and reduced earnings.

We refer to our submission to the Senate Inquiry into Australia Post in 2021, which provided clear evidence of the significant failures of the ADM, a position which was supported by the then-federal Opposition, now the Federal Government. We have summarised these findings in the Appendix to this submission.

The CWU strongly urges the Government to reject any suggestion that the ADM delivered between May 2020 and June 2021 is in any way an appropriate model on which to base future regulatory changes. Rather, it should serve as an example of what *not* to do.

Keeping Australia Post in full public ownership

The CWU welcomes the Government's commitment to keeping Australia Post "in full public ownership, providing a universal and equitable service that meets the needs of Australian people and businesses".

A discussion paper commissioned by the CWU in 2020 from public policy think tank Per Capita demonstrated the high value placed on a publicly owned Australia Post by the Australian people.

That paper, which the CWU has attached to this submission, clearly demonstrated that seeking to privatise Australia Post would be disastrous for the affordability of critical postal services, particularly those delivered in regional and rural communities, where the profitability of regular postal services is extremely challenging. Without the subsidies provided by more profitable services in the cities that result from a national, publicly owned and regulated service, regional and rural customers would quickly be abandoned to market forces, which cannot establish viable business models to serve isolated communities across our vast landmass.

As noted above, CSOs applied uniformly across the nation, to ensure five-days-per-week delivery frequency, is essential to protecting the commercial viability and competitiveness of Australia Post in a market with increasing options for private parcel delivery. The loss of the regulated delivery frequency, whether due to regulatory changes or the part-privatisation of Australia Post, would effectively leave regional and rural communities underserved and almost certainly result in the Government having to step in to fund regional and rural services directly.

Given that Australia Post has been a *cost-positive* GBE for all but one of the 33 years since its creation, the impact on government revenue and expenditure of even a part-privatisation of Australia Post would be significant. Based on Per Capita's analysis in 2020, the cost to government of such a move would quickly outweigh any short-term revenue boost from the sale proceeds.

Privatisation by stealth

The CWU greatly appreciates the Government's explicit commitment to keep Australia Post in "***full*** public ownership". To this end, we would highlight some practices within Australia Post that are arguably the privatisation of sections of its network, by stealth.

This is particularly pertinent when it comes to Australia Post's retail footprint.

Australia Post's most recent profit announcement tell of a half-year group profit before tax of $23.6m. In the same period, Australia Post claims $288.8m was paid to the Licensed Post Office (LPO) network, which is the franchised arm of its post office network.

In recent years, Australia Post has been aggressively pursuing the closure of corporate post offices (those owned by Australia Post and directly employing retail-based postal services officers and private box sorters), while creating and subsidising a network of competition by LPOs. This is particularly so, and concerning, in built-up, urban areas.

It is the CWU's view that the increasing reliance on, and subsidisation of, LPOs is a form of privatisation by stealth.

We suggest that the Government should consider supporting Australia Post to buy back licenses from LPO operators in areas where they have oversaturated the network, in order to improve the sustainability of the corporate network.

If the Government is to deliver on its commitment to keep Australia Post *fully publicly owned*, to ensure post offices with full-service offerings remain accessible in regional and rural communities, a corporate post office is the best choice for customers and workers.

In those remote areas where a standalone post office of any sort is unsustainable, a renewed focus should be brought to ensure that licensed operators are properly supported and appropriately compensated for providing these necessary community services.

The sustainability of essential services in regional and rural communities is a challenge the Government must grapple with urgently, as banks and other essential operations continue to desert them.

Enhancing post office service offerings

To this end, the CWU strongly suggests any necessary regulatory change to allow the enhancement of services offered by local post offices.

In addition to identity services and agency transactions already available in post offices across the country, in states such as Western Australia and South Australia, those services are enhanced by processing drivers license renewals – an exceedingly popular and in-demand service. Further physical access to local, state and federal government services should be introduced to the post office network.

The network is vast – infrastructure exists and recent cybersecurity events has eroded the perceived trust in the security of personal information, amongst many Australians. Governments should be leveraging the trust of the Australia Post brand, to deliver services that Australians are currently forced to access online or via telephone, where they'd prefer to have a choice.

Providing more in-person services through Post's retail outlets would make some services that are currently only available online, on phone or via the Services Australia hubs more accessible to people in regional and rural Australia, while providing another secure source of revenue for Australia Post and licensed operators.

Furthermore, we refer to the 2020 report *PostBank: filling a void, securing essential services*, commissioned by the CWU from public policy think tank Per Capita and attached to this submission.

This paper offers suggested business models and funding options for creating a publicly owned "PostBank" in Australia.

The Banking Royal Commission in 2019 found that many Australians did not have adequate access to basic financial services, and that even those who did are often ill-served by our existing financial institutions.

The CWU strongly believes that, just as we would not leave the creation and maintenance of our health system or our roads entirely in private hands, we should not leave our banking services, financial infrastructure and financial stability entirely in private hands.

The establishment of a postal banking service in Australia would, by operating within the vast infrastructure footprint of Australia Post outlets nation-wide, provide banking services to Australians who are currently underserviced by the existing banking sector.

With a social benefit mandate, such a bank could also improve banking services across the country by setting new standards for financial products and services that other banks will have to meet if they are to compete.

Moreover, PostBank could ensure the continuation of postal services in remote and regional communities, and underpin the ongoing viability of Australia Post's services across Australia.

The CWU strongly advises the Government to consider establishing such a bank, initially offering retail banking services to underserved regional and remote communities within the existing Australia Post retail footprint.

Conclusion

Australia Post is a trusted essential service, used frequently and valued highly by all Australians.

Despite the undeniable decline of the regulated letters business, the rise of online shopping and e-commerce, and the decline of many community services, such as banks, in regional and rural Australia, mean that the services provided by Australia Post are more important than ever before to households and businesses across the nation.

It is essential that Australia Post is maintained in full public ownership, and provided with regulatory certainty to enable it to continue to fulfil its essential function within our economy, and to the Australia people.

Further, the quality and reliability of the services Australia Post provides must not be further eroded by misguided attempts to reduce operational costs that will only impose higher costs on small and medium businesses, and households.

Any changes to regulations governing the community service obligations of Australia Post must, at a minimum, guarantee the continuation, and possible enhancement of, a five-day-per-week physical delivery service, reverse the creeping privatisation of large parts of Australia Post's retail network and end the outsourcing of essential delivery services on which the Australia community relies.

Appendix A – Failures of the Alternate Day Delivery Model

On 15 May, the Australian Postal Corporation (Performance Standards) Amendment (2020 Measures No. 1) Regulations 2020 were made by Governor General The Hon. David Hurley AC DSC, on the advice of the then-Federal Minister for Communications, Cyber Safety and the Arts, The Hon. Paul Fletcher.

This amendment relaxed the Australian Postal (Performance Standards) Regulation 2019, in order to "provide urgent and temporary change to performance standards for the delivery of letters to enable Australia Post to effectively manage any COVID-19 impacts on its operations, including by optimising the use of its workforce. The Amendment Regulations also gave Australia Post an exemption from its retail outlet requirements, should temporary closures be necessary due to workforce impacts of COVID-19".

What follows is an outline of the actual demonstrated impact of the ADM that operated between 15 May 2020 and 30 June 2021, under which Australia Post only delivered letters-based product to households every second business day rather than five days a week, and the changes to workforce structure in relation to parcel delivery.

Significant Reductions in Public Service Standards and Workforce Safety and Wellbeing

The introduction of the ADM saw the delivery workforce, posties, at sites impacted by the reform, split in to two groups:

- Those responsible for the delivery of both letters and parcels, via motorcycle, Electric Delivery Vehicle (eDV), Electric Aussie Mail Bike (eAMB) or on foot, which we will refer to as 'letters-posties' hereafter; and
- Those responsible for the delivery of only parcels, primarily via van, which we will refer to as 'parcels-posties' hereafter.

In meetings and telephone conversations after the introduction of the 2020 Regulations that reduced Australia Post's performance standards, the Union repeatedly alerted Australia Post's management to significant workforce concerns about the reduction in customer service and workplace safety resulting from the ADM's introduction.

These concerns included, but were not limited to, the following issues.

Letters-based articles were routinely undelivered

Pre-ADM, traditional posties would carry an average of between 650 and 750 letter-based articles and an average of 90 parcel-based articles each round, each day.

Under the ADM, where two traditional rounds were delivered on the same day by the same postie, letters-posties were carrying an average of around 1200 letter-based articles and anywhere from 40 to 60 parcel-based articles each shift, each day – an effective doubling of the workload on letter-based products, with parcel volumes remaining largely the same.

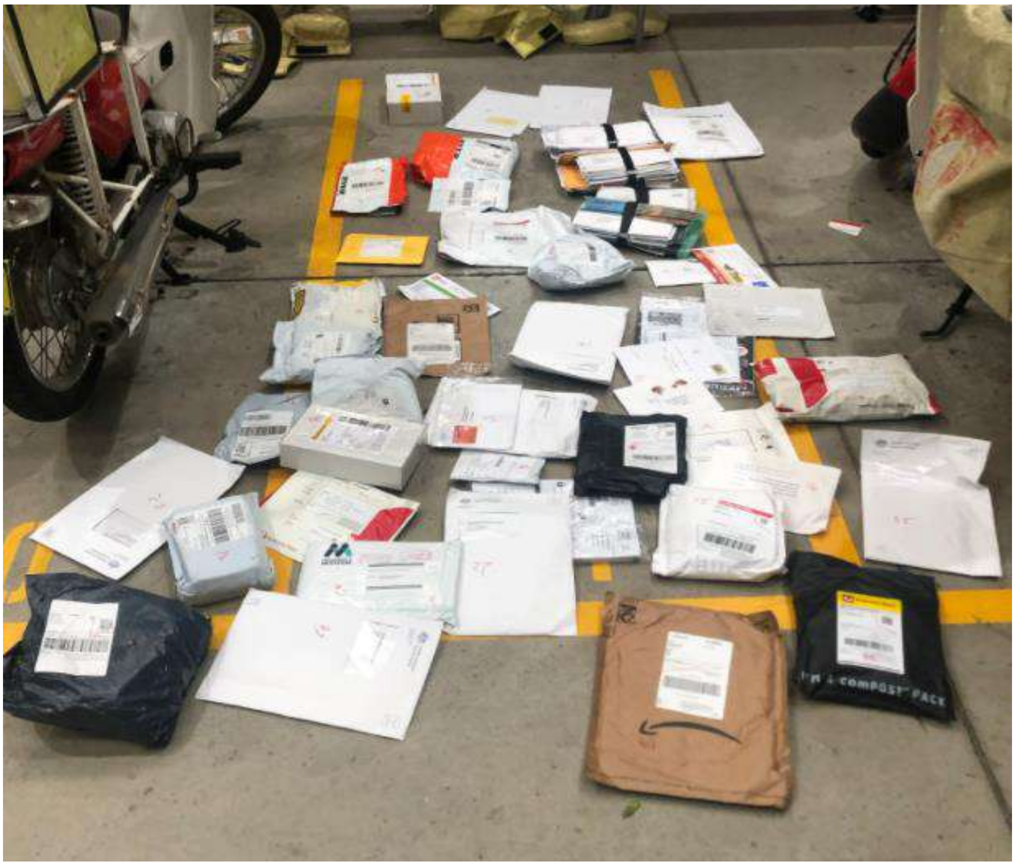
Furthermore, a varying number of 'full covers' of unaddressed mail (UMS), requiring a stop for delivery at every delivery point across relevant geographical areas, continued to be booked for delivery each week, as was the case pre-ADM.

The inability for the letters-postie to physically deliver the sheer volume required resulted in articles being unable to be delivered on the day they were due. This affected ordinary mail, Express Post and other premium products, parcels and unaddressed mail.

The delay in delivery during the period of the ADM ranged from days to weeks after they were due; in the case of some unaddressed mail products, they were not delivered at all. It caused a situation where posties said it is impossible for them to actually catch up.

Election material booked for UMS delivery remained undelivered in a northern Perth suburb on 15 March – the Monday after the election had occurred.

An example of a traditional postie round being left behind, undelivered, on the day delivery was due



An example of articles brought back to the depot after a completed shift, including letters, parcels and Express Post, undelivered on the day delivery was due

Parcel deliveries were delayed following the shift to inefficient van deliveries

Prior to the introduction of the temporary performance standards, management insisted that the shift was necessary to address two main issues:

1. Allowing posties to carry parcels that were of an unsuitable size and weight to be carried via traditional delivery methods, particularly motorcycles; and
2. To increase a postie's carrying capacity, allowing them to deliver a greater volume of parcels whilst reducing the volume of parcel delivery work that was being outsourced to third party contractors.

What actually occurred under the ADM was the polar opposite. Parcels-posties delivering in vans did not carry more parcels, nor did they carry parcels that differed significantly in size nor weight to those carried by a motorcycle or EDV.

Parcels delivered by parcels-posties rarely exceeded 150 per day. In fact, the actual average number of parcels delivered by parcels-posties was more often than not less than 110, similar to volumes they were delivering via traditional modes pre-ADM.

Environmental factors, traffic, parking availability and the sheer volume of delivery points, contributed to the inefficiency of the delivery model.

Furthermore, the volume of parcels being streamed to third party contractors increased exponentially under the ADM. This included the volume of articles streamed to those parcel contractors who were engaged directly by Australia Post, and whom routinely rejected volume as they themselves were overextended.

This also included other third parties who were engaged under new initiatives since the introduction of ADM, such as taxi drivers and drivers working on behalf of ride-sharing platforms, delivering ordinary parcel articles at a premium cost.

A typical load from a parcels-postie's van – nothing exceeding the size or weight to that delivered by traditional posties pre-ADM, or letters-posties post-ADM

Changes to posties' shift commencement times affected services and employee wellbeing

Posties have traditionally commenced work between 5:30 and 6:30am. This commencement time enabled them to complete the bulk of their runs prior to the hottest times of the day, to avoid engaging in delivery during morning and afternoon peak-hour traffic times, but to also engage in reasonable levels of overtime to ensure the delivery of all product, on the day delivery was due, where required.
On days where that overtime was not required, it also enabled them to meet their family obligations outside of work – particularly those obligations relating to the after school care of school-aged children. Their inability to continue to meet these obligations during the implementation of the ADM caused undue stress and a real financial impact on working parents.

With the exception of a handful of sites in NSW and the ACT where letters-posties commenced at 6:30am and parcels-posties between 7:30 and 7:45am, ADM letters-posties primarily commenced between 7:00 and 8:00am, with parcels-posties primarily commencing between 7:30 and 9:30am.

This affected their ability to deliver more volume during the cooler parts of the day and caused efficiency issues when delivering through the busy morning and afternoon traffic peaks. This caused their jobs to become significantly more unsafe and limited the time available to finish their deliveries, particularly during the cooler months when daylight hours become shorter, further limiting the available window for safe and efficient deliveries to occur.

Impacts on the take-home pay of van drivers

Outside the postie workforce, postal workers across other parts of the business experienced a reduction in take-home pay as a direct impact of the 2020 Regulations.

The 2020 Regulations not only relaxed frequency of delivery obligations, but also the delivery timetable overall, enabling Australia Post to slow-down the transportation and processing of mail articles prior to it reaching its 'last-mile' for delivery.

Specifically, with additional processing time allowed under the 2020 Regulations, Australia Post ceased its clearing of Street Posting Box lodgement points, and the processing of articles lodged through those boxes, on Sundays.

These changes directly translated to a real reduction in traditional income for hundreds of van drivers. In terms of SPB clearances, van drivers, who have traditionally worked every second Sunday, suffered a reduction in take-home pay of around $3000 per annum in real terms.

These are not particularly highly paid workers, and this was not income derived from ad-hoc work sources. Rather it was traditional income lost through a reduction in rostered work that was a direct result of the 2020 Regulations.

Surveys of Australia Post Workforce

What follows is evidence from the Australia Post workforce – those people who manage letter and parcel sorting, bulk transport and delivery (the posties) – of the impact of the ADM on their ability to provide a reliable and trusted service to the Australian people, and on the security, safety and wellbeing of Australia Post workers.

In September 2020, following the full implementation of the ADM, the CWU conducted a survey of posties employed at ADM sites in relation to service delivery and workplace health and safety.

At the time, the survey found that:

- **57 per cent** of letters-posties said they left letters-based products behind at the delivery centre, or brought them back where they remained undelivered for more than one business day.
  - Of those, the average number of letters were 201 per postie, per response;
- **51 per cent** of posties said they left behind, or brought back, parcel products (including premium products such as *Express Post*) they were unable to delivery on their run, on the day the parcel was due for delivery
  - Of those, the average number of parcels undelivered on the day they were due was 44 per postie, per response**;**
- **43 per cent** of posties admitted to not adhering to all footpath and nature strip speed limits whilst performing the delivery function of their role;
- **84 per cent** of posties said they were unable to complete their duties within their rostered hours. 34 per cent of those said they considered the level of overtime required to complete their run to be unreasonable;
- **55 per cent** admitted to not taking all their applicable breaks in order to complete their duties.

Following the announcement of the Senate Environment and Communications References Committee Inquiry into Australia Post in February 2021 the CWU reactivated this survey and asked members to participate again, from 10 March 2021.

The second survey found that:

- **58 per cent** of letters-posties said they left letters-based products behind at the delivery centre, or brought them back where they remained undelivered for more than one business day.
  - Of those, the average number of letters were 135 per postie, per response;
- **50 per cent** of posties said they left behind, or brought back, parcel products (including premium products such as *Express Post*) they were unable to delivery on their run, on the day the parcel was due for delivery
  - Of those, the average number of parcels undelivered on the day they were due was 32 per postie, per response;

- **53.6 per cent** of posties admitted to not adhering to all footpath and nature strip speed limits whilst performing the delivery function of their role;
- **86 per cent** of posties said they were unable to complete their duties within their rostered hours. 34 per cent of those said they considered the level of overtime required to complete their run to be unreasonable; and
- **51 per cent** admitted to not taking all their applicable breaks in order to complete their duties.

The surveys demonstrate that posties engaged in delivery under the ADM were working inefficiently and unsafely.

Appendix B – Discussion Paper: The Future of Australia Post

percapita
FIGHTING INEQUALITY IN AUSTRALIA

THE FUTURE OF AUSTRALIA POST

A DISCUSSION PAPER BY PER CAPITA
FOR THE COMMUNICATIONS, ELECTRICAL AND PLUMBING UNION OF AUSTRALIA

EMMA DAWSON, ABIGAIL LEWIS, AND MATTHEW LLOYD-CAPE

JULY 2020

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About Per Capita

About the authors

Emma Dawson is the Executive Director of Per Capita. Formerly, she was a senior advisor on Digital Inclusion at Telstra, Executive Director of the Institute for a Broadband Enabled Society at the University of Melbourne, and a senior policy advisor to Communications Minister Stephen Conroy in the Rudd and Gillard Governments. In this role, she was the principal policy adviser on Australia Post for 3.5 years.

She has published articles and opinion pieces on a wide range of public policy issues, and is a regular panellist on The Drum on ABC TV and appears frequently on other radio and television programs to talk about social issues and public policy.

Abigail Lewis is a Research Associate with Per Capita, providing research and editorial support to projects across our research areas. Abigail's research and policy interests include social policy, social security, social housing, and social justice. Abigail also manages Per Capita's communications, from website and social media to events and publications, focusing on outreach and engagement. Before joining Per Capita she worked as a reporter in the UK and as Communications Director for Live Below the Line, where she was nominated for a Golden Radiator Award for ethical communications.

Abigail has a BA with First Class Honours from the University of Warwick and a Master of International Relations from the University of Melbourne, where she held the Northcote Graduate Scholarship. In 2020, Abigail was awarded the RMIT Unison Scholarship and commenced as a PhD candidate within RMIT's Unison Housing Research Lab in July.

Matthew Lloyd-Cape is a Research Economist in Per Capita's Progressive Economics program. He has more than a decade's experience working on social and economic issues in international NGOs, trade unions and academia, with a focus on livelihoods and employment. His most recent role was as an International Researcher and Campaigner with the Australian Council of Trade Unions.

Matthew is an innovative researcher, with a passion for, and proven knowledge of, research on micro and macro social and economic issues.

Introduction

Australia Post is one of the nation's most trusted and valued public institutions.

A national postal service has existed since Federation in 1901, when the Post-Master General's Department was established. The PGD operated for three-quarters of a century, keeping Australians connected throughout our country and across the world until its replacement in 1975 by the Australian Postal Commission.

In its current form, Australia Post has operated a world-class postal service, spanning our vast landmass, since the establishment of the Australian Postal Corporation as a Government Business Enterprise in 1989. Australia Post has maintained a reliable, secure and trusted public service to the Australian people for almost 120 years, maintaining the essential lines of communication through two world wars and the Great Depression. It survived, and has thrived, since the advent of digital communications in the early 2000s, while many other public postal services around the world surrendered to the forces of privatisation and the shift to online communications.

In the last 35 years, only once has Australia Post recorded a financial loss: in the 2014-2015 financial year, as its reserved letters service was hit by a severe decline when the adoption of email reached a critical mass. Yet in the face of this great digital disruption, Australia Post adapted its business model quickly, with minimal loss of service or jobs, and returned to profitability on the back of a strategic investment in its parcel delivery and courier services.

Today, Australia Post operates three core business areas: letters and associated services; parcels and logistics; and retail merchandise and agency services.

It is a cost-positive Government Business Enterprise, funding its operations entirely through revenue, and returning a dividend to the Federal Government in every year other than 2014-2015 since its incorporation more than three decades ago.

The Corporation has, throughout that time, adhered to the community service obligations set out in the Australian Postal Corporation Act 1989, delivering mail to Australians five days per week, wherever they live.

Australia Post delivers to more than 10 million Australian addresses, across almost 8,000 postal routes that are serviced by more than 10,000 "posties". It operates almost 7,000 retail outlets nation-wide, serving more than one million customers per day, and provides such essential services as bill payments and financial transactions, passport applications, identity verification and secure parcel delivery and collection.

According to the 2019 Annual Report, Australia Post delivered 40 million parcels in December 2018, generated revenue of A$6.99 billion, with before tax profits of A$41.1 million, created over A$250million in business efficiency savings, and delivered to 214 countries in its international network.

It maintains over 4,342 post offices, including 2,529 in rural and remote areas of the country, 15,037 street posting boxes and employs over 80,000 Australian workers.

As with all postal services, Australia Post's revenues have been under pressure since the advent and wide adoption of digital communications. While offset by the rise in parcel delivery through online shopping, and effective innovations to its products and services over the last decade, Australia Post is still faced by significant operational pressures. Government should consider expanding, rather than contracting, the services provided by Australia Post, both in the interests of its customers and to strengthen the revenue base and viability of the enterprise.

One way to do this would be through consideration of establishing a public bank in Australia by providing Australia Post with an Authorised Deposit-taking Institution (ADI) licence. The establishment of a postal banking service in Australia would, by operating within the existing infrastructure footprint of Australia Post outlets nation-wide, provide banking services to Australians who are currently underserviced by the existing banking sector, including in regional and rural communities. Moreover, it could ensure the continuation of postal services in these communities, and underpin the ongoing viability of Australia Post's services across Australia. This idea will be explored in detail in an upcoming Per Capita report.

Australia Post is a treasured national institution, essential to Australia's prosperity and security. Its future must be safeguarded and strengthened in the interests of all Australians.

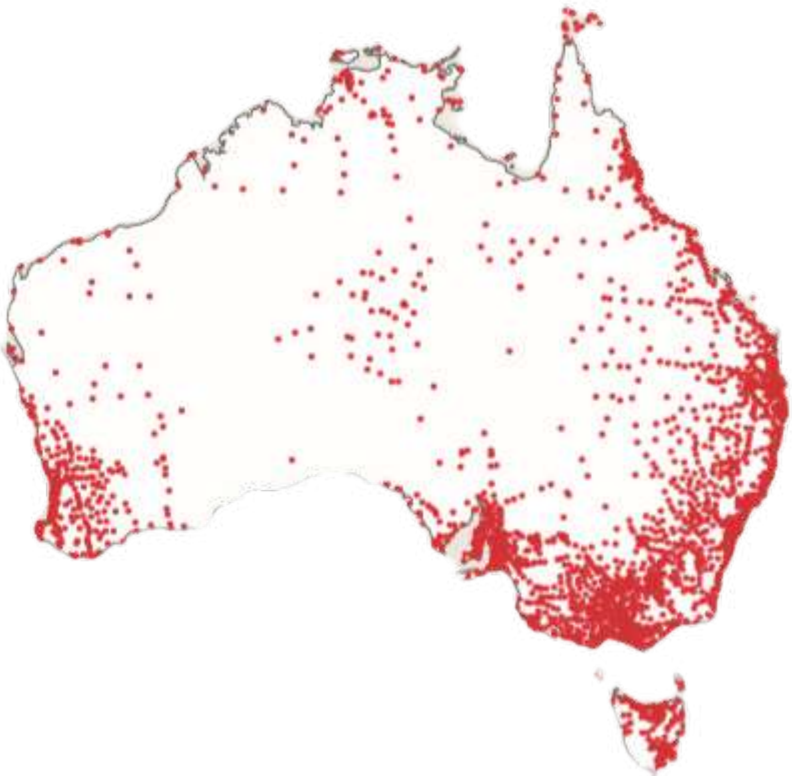

Figure 1: Australia Post Network of post offices

Public perceptions of Australia Post services

In July 2020, the CEPU commissioned Essential Media to survey public views on the service provided by the Australia Post, the frequency of service us and on public vs private ownership. The results are summarised in the following section, and later in this report in the section that canvasses issues surrounding the possible privatisation of Australia Post.

Frequency of use

41% of Australians visit a post office at least monthly, with 45% of the sample using a mail box at least once a month.

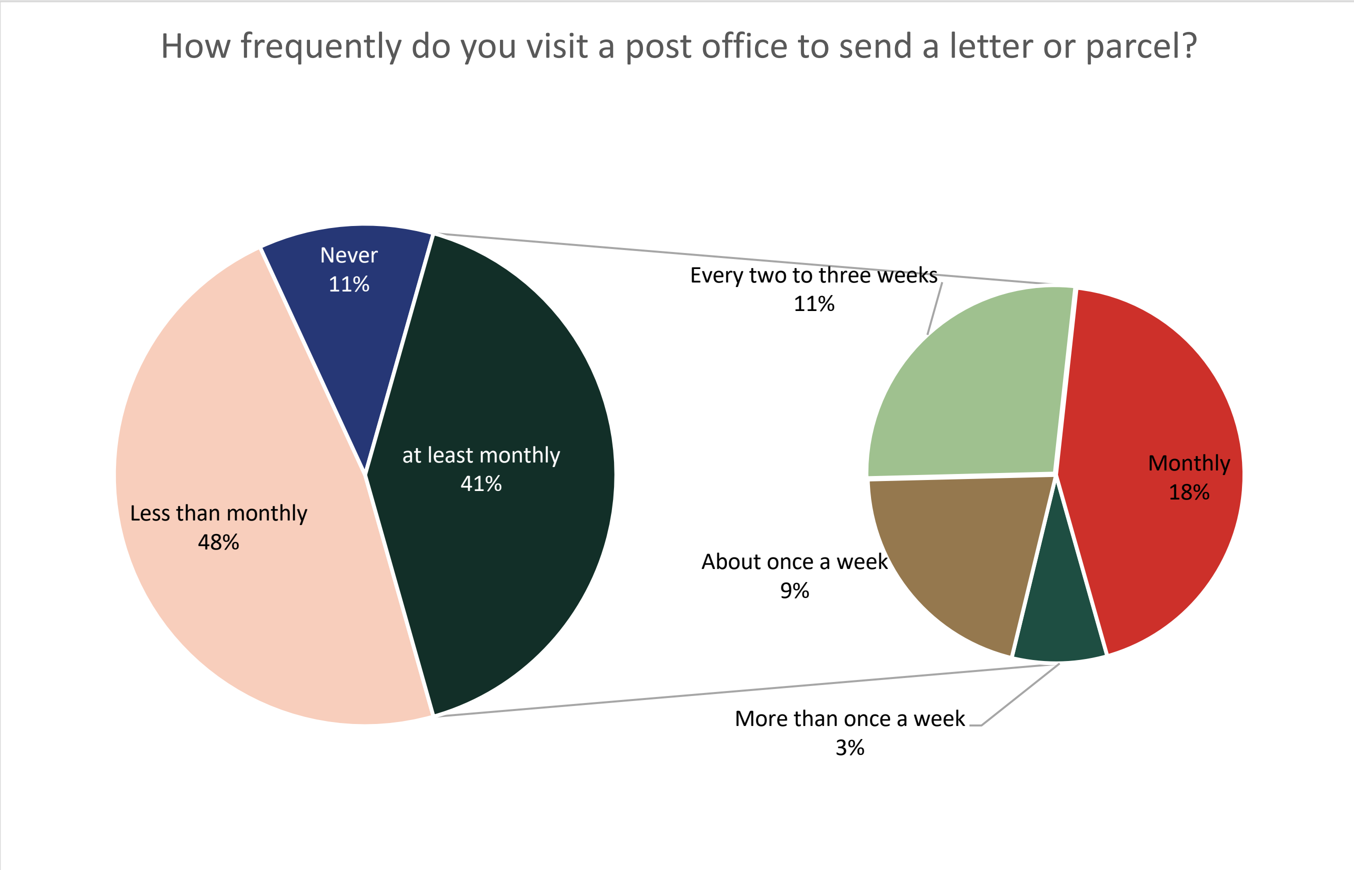

Figure 2

Quality of service

Over three quarters of respondents saw the quality of service as being either good or very good, with just 6.7% regarding the service as being poor or quite poor.

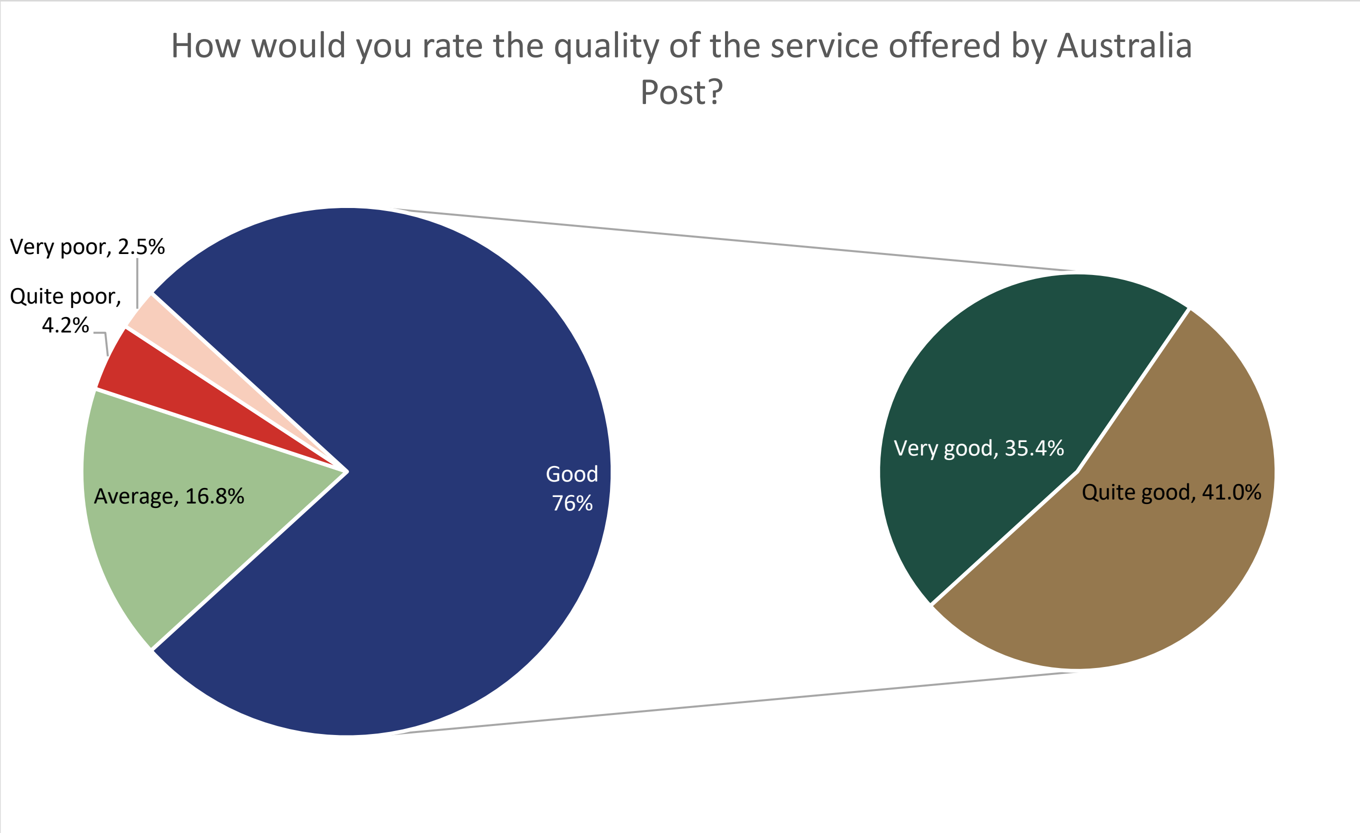

Figure 3

Change of service

The largest single preference regarding whether the frequency of letter deliveries should change was to remain the same (32%), with three times a week (30%) and twice a week (25%) as second and third preference.

Taken as a whole, preferences for remaining the same or reducing to three times a week accounted for over three fifths of the respondents. Those questioned felt far more strongly that post offices should remain open at least 5 days a week as is shown in the figure below.

59% of respondents preferred that service quality be increased rather than delivery frequency decreased, with only 14% disagreeing with that view.

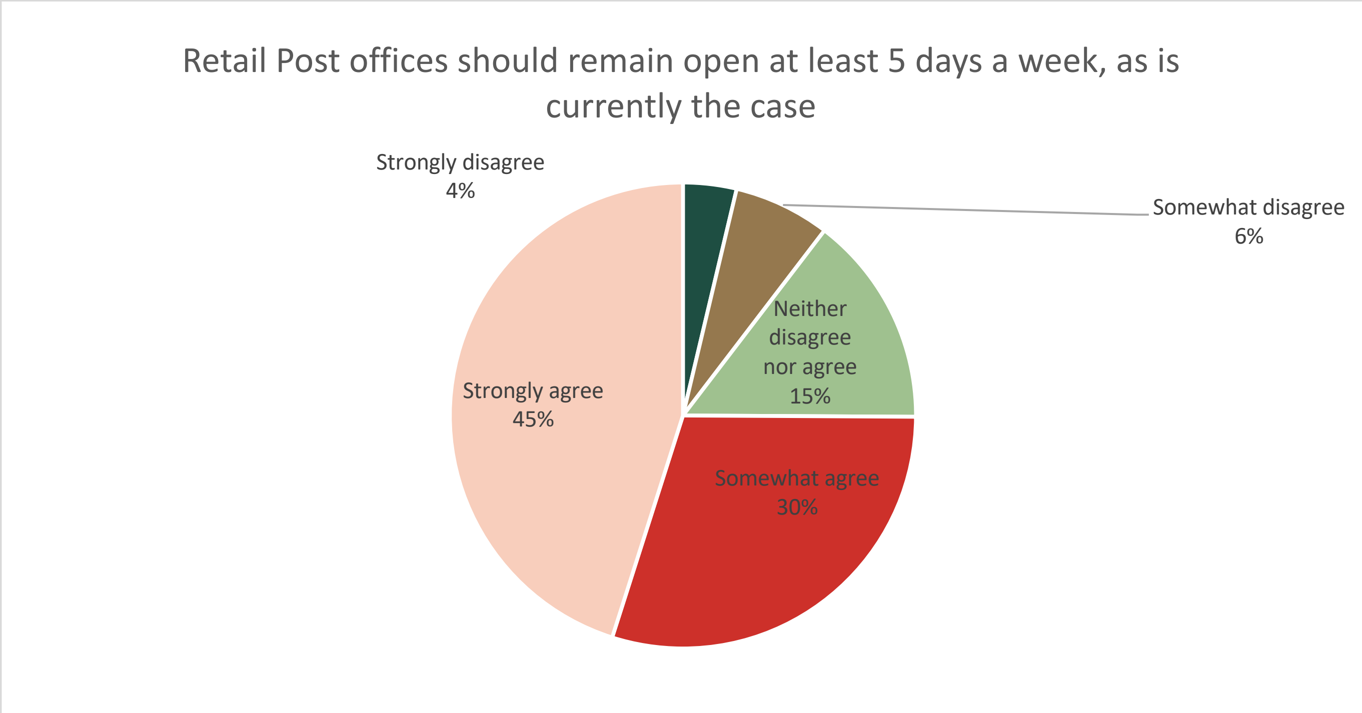

Figure 4

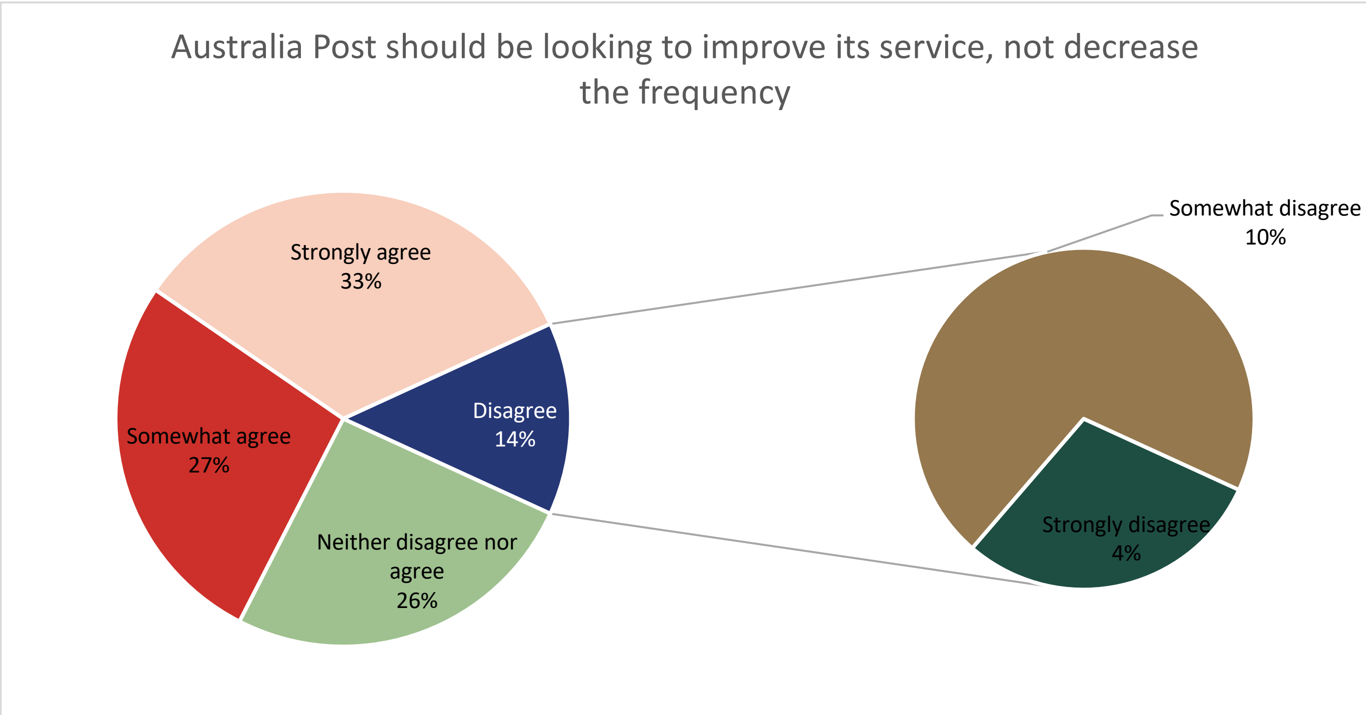

Figure 5

Overall, the survey results reveal a high level of satisfaction with Australia Post's services among customers across Australia. It is a highly valued public institution that is relied upon by Australian households and businesses every day.

The challenges facing Australia Post as a result of COVID-19

The massive disruption to our way of life caused by the COVID-19 pandemic has caused significant disruption to Australia Post's services and operations.

As reported in the *The Australian* on 31 May 2020, the hit to key Australia Post services, including domestic letters, international mail and retail services such as passport applications, was swift and brutal.[1]

Despite a surge in business in parcel deliveries due to increased online shopping, a 30 per cent reduction in the letters business, and halving of retail services, in the first fortnight of the economic shut-down dramatically reduced revenue and forced Australia Post to cut costs.

One consequence of this was a decision by management to seek regulatory changes to relieve the organisation of some of its regulated performance standards. This was met with agreement from the Corporation's shareholder ministers in the Federal Government.

Regulatory changes

On 15 May, the Australian Postal Corporation (Performance Standards) Amendment (2020 Measures No. 1) Regulations 2020 were made by Governor General The Hon. David Hurley AC DSC, on the advice of Federal Minister for Communications, Cyber Safety and the Arts, The Hon. Paul Fletcher.

This regulatory instrument amends the *Australian Postal (Performance Standards) Regulation 2019*, and was drafted in consultation with Australia Post, with the following purpose:
…to provide urgent and temporary change to performance standards for the delivery of letters to enable Australia Post to effectively manage any COVID-19 impacts on its operations, including by optimising the use of its workforce. The Amendment Regulations will also give Australia Post an exemption from its retail outlet requirements, should temporary closures be necessary due to workforce impacts COVID-19[2].

Australia Post had sought changes to two of its four regulated standards, due to the impact of the COVID-19 pandemic on its operations and financial position. These are:

- Letter delivery frequency – Australia Post is usually required to service 98% of all postal delivery points daily, excluding any Saturday, Sunday and public holiday, and 99.7% of all postal delivery points at least two days per week.
- Retail outlets – Australia Post is required to maintain at least 4,000 retail outlets:
    - at least 50% of retail outlets, and not less than 2,500 are required to be located in rural or remote areas;
    - in metropolitan areas, retail outlets are required to be located such that at least 90% of residences are located within 2.5 kilometres of an outlet; and

[1] https://www.theaustralian.com.au/business/companies/australia-post-forced-to-slash-costs-as-coronavirus-hits-revenue/news-story/e3421301cf036c663816d30442813913

[2] Authorised Version Explanatory Statement registered 15/05/2020 to F2020L00579

- in non-metropolitan areas, retail outlets are required to be located such that at least 85% of residences are located within 7.5 kilometres of an outlet.

The Amendment Regulations, which took effect on 16 May, relaxed the letter delivery requirements for metropolitan areas, so that letters may now be delivered every second day, rather than five days a week.

They also provide some discretion to Australia Post in adhering to the standard for retail outlets, but requiring that retail outlets are kept open during COVID-19 only *to the extent that is reasonably practicable*.

In practice, this amendment gives Australia Post the discretion to temporarily close outlets should this be necessary due to the impact of COVID-19, either on workforce availability, or on the physical safety of the premises (EG: outlets may be temporarily closed for cleaning in the instance of known exposure to, or potential infection with, COVID-19.

It also allowed Australia Post to reallocate resources from under-performing parts of the business to the booming parcels delivery service.

The Regulation is in effect until 30 June 2021.

While this is a temporary reprieve from its performance standards, a reduction in the frequency of letter delivery is something that the Corporation has been pursuing for some time, as the domestic and international letters business has collapsed dramatically over the last 15 years due to the advent of email and other forms of digital communication.

As we have seen, despite significant disruption to its business model as a result of the digitisation of communications services, Australia Post has been able to stabilise its revenue through restructuring over the past decade, and adapting quickly to changes in technology and demand.

The economic shock caused by the COVID-19 pandemic is unprecedented in Australian history, and Australia Post, like all businesses, faces real short- to medium-term challenges in meeting its community service obligations and maintaining profitability.

Yet, after more than a century of continuous, reliable and trusted service to the Australian people, spanning two world wars, the Great Depression of the 1930s, and the massive disruption of digital communications, Australia Post has proven time and again its value to our nation, and its ability to adapt and survive.

It is critical that the immediate economic crisis is not exploited to dilute the quality and reliability of postal services upon which Australians have relied for almost 120 years.

The Australia Post workforce

Australia Post workers provide an essential service, and have been among those deemed essential workers during the crisis. Australia Post has engaged in significant reallocation of staff, and the recruitment of additional casual and short-term employees, to meet the increased demand from the significant increase in parcel delivery services during the pandemic.

Australia Post's workforce of 80,000 includes over 32,000 direct employees – including more than 10,000 posties. During the economic shut down and social isolation imposed in response to COVID-19, these essential workers provided a lifeline to Australians, delivering essential goods and providing critical services to keep us connected at a time of unprecedented disruption.

Posties ensured that the extraordinary number of parcels that flooded the delivery network, as people moved to online shopping, made it to homes and businesses across the country. Workers from other areas of the business were redeployed to distribution centres to manage the massive increase in logistics and handling. Staff in retail outlets, considered an essential business, fronted up to work, uncomplainingly, as many other Australians stayed safely at home.

Australia Post employees are what have become known as "essential workers" during the pandemic. They provide services that are essential to the effective functioning of our economy and to support Australians to maintain their connections with friends and family here and overseas.

They play a critical role in the supply chains of tens of thousands of small and medium businesses across the country, providing a trusted and reliable distribution network for commodities that are traded between businesses, and for the growing number of goods customers purchase online. The services provided by Australia Post workers are especially valuable in regional and rural Australia, allowing people to participate fully in the economy regardless of their location, or the remoteness of their home or business.

In recent years, as with all publicly provided services, the workforce of Australia Post has come under increasing pressure from the casualization of their employment, with a rise in the use of fixed term contracts and the replacement of secure, permanent roles with casual positions. At the same time, management has sought to hold down salaries, in line with wage restraint imposed on public sector workers in most government agencies.

Cutting the jobs and conditions of essential workers who provide universal public services is a false economy. The reduction in the quality and quantity of services that inevitably results from shrinking the workforce or reducing the resources they need to perform their duties will be felt by customers, including those small business customers for whom the services provided by Australia Post are a critical element of their operations.

At a time when Australian businesses and households are more reliant than ever on the high quality, universal services provided by Australia Post, maintaining and investing in the workforce will be critical as we seek to rebuild our economy and return business activity after the shut-down imposed in response to COVID-19.

International comparisons

When considering the impact of the COVID-19 economic shock on Australia Post, it is illustrative to provide a comparison to the performance of international postal services during the crisis. It is also useful to look at the outcome of the privatisation of such services over recent years, to assess if the selling off of essential public infrastructure has resulted in increased efficiencies or improvements in service.

What follows is a brief overview of the performance of comparable postal services internationally, and an analysis of the impact of COVID-19 on those services.

United Kingdom: The Royal Mail

The Royal Mail was privatised in three stages from 2013 to 2015. Only the Royal Mail (the delivery and sorting infrastructure of the business (was privatised while the Post Office (branches, retail activities, and local services) remains in public ownership. 10% of shares were allocated through a free offer to Royal Mail employees while the remaining 90% are held by private and institutional investors.

During COVID-19, the Royal Mail issued a note to shareholders and investors warning of “significant uncertainty” due to the impact of the pandemic on the UK post and international parcel markets. It advised that it expects its UK post business to be “materially loss making” for the 2020-21 financial year and has cancelled its final dividend for the year.

The company also warned that its *Journey 2024* business transformation plan, already delayed due to tensions with workers and threatened industrial action, would likely be delayed further. It suspended its financial guidance for 2020-21 and beyond.

Operationally, the Royal Mail announced a temporary reduction in its universal service obligation from six days a week to five, removing the Saturday letter delivery.

The Communication Workers Union (CWU) opposed this change and has argued that it is part of a long-term strategy to introduce a permanent reduction and save money on staff costs as part of the Royal Mail’s *Journey 2024* pledge to become a sustainable and profitable private business by 2024.

During the pandemic, there have also been accusations that the Royal Mail has prioritised profit over employee safety, with postal workers reporting that they have been forced to work without personal protective equipment or adequate hand washing facilities.

At least three Royal Mail postal workers have died from COVID-19. Several walkouts and unofficial industrial actions have taken place at depots and post offices around the country over safety concerns, lack of proper protective measures, including inadequate cleaning of workplaces after a worker has tested positive for COVID-19, a shortage of basic items like gloves, masks, and hand sanitiser, and the failure to notify workers that they had come into contact with a colleague who had tested positive.

United States: United States Postal Service (USPS)

The United States Postal Services (USPS) is, like Australia Post, publicly owned but not publicly funded, receiving no federal funding since 1982. It is self-funding, primarily through the revenue from postal product sales.

The USPS's financial struggles have been exacerbated by the COVID-19 pandemic, but they predate it by more than a decade. Conservative forces have long argued for the privatisation of the Postal Service, and in 2006, under the administration of President George W. Bush, the Postal Accountability and Enhancement Act placed extraordinary obligations on the USPS, requiring it to pre-fund health benefits for its retired workforce through annual payments of $5.5 billion per annum for 10 years.

These obligations, combined with the Great Recession and the simultaneous rise of the internet, put the USPS into debt. At the end of the last financial year the USPS was holding $11 billion in debt; this figure had increased to $14.4 billion by 1 April this year.

It should be noted, however, that the USPS struggles financially only because of the extraordinary regulations placed upon it in 2006: excluding its debt payments, the USPS has finished each year with a revenue surplus for most of the last decade.

As a result of COVID-19, the volume of mail the USPS delivers has dropped by one third compared to the same time last year. The USPS is projected to lose $22 billion over the next 18 months, and may be unable to meet its debt obligations as early as September 2020.

So far 54 USPS workers have died from COVID-19. The administration of President Donald Trump has intentionally excluded the USPS from all federal bailout money and has instead asserted that the USPS would need to quadruple its package rates before it would approve a loan to the agency.

Many commentators believe that Trump's decision to continually block bailout funds to the USPS are linked to his personal animosity with Amazon CEO Jeff Bezos, whose company relies on the USPS to operate and who also owns the Washington Post, which Trump believes to be critical of his presidency.

The economic benefits of a strong Australia Post

Due to its unique position in the Australian market, the overall value of Australia Post is not reflected in standard accounting measures. What follows is an assessment of recent research and trends within the sector to provide an understanding of the value of the Corporation's services to the Australian economy.

Australia Post currently employs over 27,000 permanent staff and has a network of 4,356 post offices around the country. Revenues stand at just under $7 billion for the 2018-19 year, an increase of over $2billion in 10 years.

Deloitte Access Economics has placed the direct economic contribution of Australia Post in FY2017 at $3.216billion. Given the two subsequent years of profitability, large capital investments in the parcel component of the business and investment in new technologies and services, it is likely that this valuation has increased: at least in line with inflation, and probably by significantly more. A conservative, inflation only estimation would place the current value of Australia Post at over $3.33 billion.

Table 1 below provides a summary of the Corporation's economic and employment performance between 2008-2019. Over this period, profits have declined, but have somewhat since the lossmaking 2014-2015 financial year. Similarly, the return on operating assets has declined significantly. Alongside large capital investments this indicates a relatively stable position.

The average dividend returned to the Federal Government over this period is just over $145 million per year, with an average of $47.7 in the past four years.

While profitability has been in decline, as with every national postal service since the advent of digital communications, the fact that Australia Post has recorded only one year of loss in the past three decades disproves the frequent predictions of the terminal decline of the Corporation.

Beyond its shareholder dividend to the Government, Australia Post returned over $5.6billion in taxes and charges to the Australian Taxation Office between 2008 and 2019.

Broadening out our definition of economic value, it is important to note that, according to the ABS, the labour share of value added in Australia Post is very high, at roughly 87%, compared to the average labour share of value added at 45% (ABS 2017a). This demonstrates that the majority of value created by the Corporation goes into the pockets of Australians as wages, increasing the multiplier effect of consumption within the local goods and services economy.

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	total	average
Aus Post dividends ($m)	446.2	222.4	79.1	173.2	213.7	192.7	78.8	–	20.0	50.1	78.5	42.2	1,596.9	145.2
Revenue ($m)	4,936.9	4,974.5	4,856.2	4,986.5	5,126.2	5,893.2	6,383.3	6,373.8	6,562.2	6,807.2	6,877.0	6,989.8	70,766.8	5,897.2
Profit/(loss) before tax ($m)	592.2	380.9	103.0	332.3	366.7	177.4	103.0	-352.1	41.0	126.1	125.7	41.1	2,037.3	169.8
Profit after tax ($m)	432.2	260.5	89.5	241.2	281.2	177.4	116.2	-221.7	36.4	95.4	134.2	40.6	1,683.1	140.3
Loss from mail services ($M)					-186.9	-280.3	-303.7	-407.1	-114.4				-1,292.4	-258.5
Profit/ (loss) from reserved services ($m)				-66.5	-114.4	-198.0	-242.6	-283.4						
Community service obligations ($m)	108.5	113.8	147.7	144.7	165.3		205.8	211.6	183.6	389.9	403.5		2,074.4	207.4
Return on average operating assets (%)	19.4	12.2	3.8	10.9	11.9	6.2	3.4	-8.2	1.8	4.0	3.3	1.6		5.9
Capital expenditure ($m)	25.10	270.10	258.40	225.60	227.00	386.80	523.10	342.00	298.10	295.60	310.20	423.90	3,585.90	298.83
Total taxes and government charges ($M)	548.10	499.50	448.50	436.20	369.30	447.30	494.20	433.90	399.30	469.50	540.20	529.40	5,615.40	467.95
Permanent Full-time employees (excludes casuals)	25042	25107	24172	23,323	23,184	23,526	27,315	27,371	26,939	27,132	26,589	27,005		25,559
Permanent Part-time employees (excludes casuals)	9936	10196	10086	9,865	9,398	8,938	8,613	8,395	7,990	7,838	6,949	6,772		8,748

Table 1

Broader economic impact

The economic value created beyond direct trade and employment was estimated in 2018 as almost 1:1. That is, for every $1 directly generated in value, Australia Post activities generate another $0.86 in other businesses. While manufacturing jobs provide by far the highest level of secondary employment and value, the multiplier produced by Australia Post is significantly higher than that of most service industries, and is roughly equivalent to that of the construction sector.

Within this contribution by Australia Post overall, the Post Office Network (Australia Post's retail stores) supports even more employment in relative terms, with every full-time equivalent (FTE) job in the Post Office Network creating almost two FTE jobs in other sectors.

Overall, the secondary economic activity produced by Australia Post is equal to $2.759billon, and equivalent to 24,832 jobs.

The growing value of the parcel business

A vital component in assessing the overall value of Australia Post is its capacity to change within a rapidly evolving letters and parcels landscape.
Letter volumes fell 9 per cent last year alone. Conversely, revenue from online shopping in Australia is expected to grow by 35% from FY18 to FY21 (IBISWorld, 2017). The e-commerce market expanded by 19.2% in 2017, and will be further boosted by the COVID-19 crisis, which has seen massive increases in online shopping and home delivery of goods.
As we have seen, Australia Post has adapted nimbly to the increasingly parcel dominated market.

While international parcel business suffered last year due to the fall in the value of the Australian Dollar; the introduction of the GST on imported low-value goods; and an increase in the price of untracked packets in China, the domestic parcel business is increasing significantly. As a result, while the Corporation's revenues increased by 1.6% in 2018/19 to $6.99 billion, revenue in the parcels and services business was up 7.7 per cent to $4.8 billion, driven by strong performance in the domestic parcels business. This was on top of a 10% increase the previous year.

The capacity to absorb seasonal parcel trends indicates a relatively strong position. The Corporation delivered more than 40 million parcels in December 2018, up 11.7 per cent on the previous year, with three million parcels being delivered on 17 December and 2.7 million parcels delivered on Christmas Eve.

The demands of peak period and, in particular, our peak day on 17 December, saw two previously separate workforces from Australia Post and StarTrack (represented by two different unions) working together to deliver the record three million parcels on that day. Investment in parcel facilities since 2017/18, such as the Redbank Parcels Facility in Brisbane, will develop the capacity of the Corporation to expand into the growing parcel space.

Exploratory ventures such as e-commerce fulfilment with Fulfilio – a product of its incubator program – will potentially expand this capacity further. Fulfilio currently has warehouses in four capital cities. Australia

Post holds a 10% stake in Aramex. As part of the deal the two companies created the Aramex Global Solutions international parcels joint venture. Australia Post is responsible for delivery of Australia-bound parcels under the joint venture.

The postal infrastructure operated by Australia Post gives it a unique position to benefit from the rise of e-commerce in regional and rural Australia. With the overall value of regional e-commerce estimated at $10.6 billion in 2019, the 900 regional, rural and remote post offices and associated delivery infrastructure provide a huge advantage over the Corporation's competitors.

Critically, in order for both Australia Post and the many small and medium businesses it supports across regional and rural Australia, a Universal Parcel Obligation (UPO) should be legislated in the Australia Postal Corporation Act 1989. This would ensure that businesses in regional and remote areas are able to compete on a level playing field with businesses located in metropolitan areas. A UPO is the logical extension of the existing Preserved Letter Service, which underpinned the universal, fixed price national mail service that supported Australian business and the development of strong regional economies in the 20th century.

The value of Australia Post as a Government Business Enterprise

The fact that all of Australia Post's profits and taxes remain within Australia, combined with the contribution of the wage share of profits to relatively high local spending, significantly increases the economic value of the Corporation.

Further, given the high proportion of permanent workers within the Corporation's structure, and the wide geographical spread of employment, the impact of secure and stable incomes, and related consumption, is shared widely across Australia.

This is particularly important in regional and rural Australia, where Australia Post provides a linchpin to economic and social activity. A recent estimate by Deloitte Access Economics put Australia Post's economic footprint at A$806million in regional and rural Australia, creating the equivalent of 10,802 jobs. Its services in regional areas are critical for business owners, who make an average of one visit a week to their post office.

Regional and rural post offices also facilitated 26.8 million banking and bill pay transactions, and 1.6 million identity verifications last year.

With the public as the only company shareholder we would suggest that attempts to change the ownership of Australia Post, through privatisation of all or part of the business, would be deeply unpopular and a dangerous political move. The final section of this report makes the case for an unequivocal commitment by the government to retaining Australia Post in public ownership.

Keeping Australia Post in public ownership

Given the significant, but warranted, debt the Federal Government has taken on to support the economy during the COVID-19 pandemic, there is a real risk that it will seek to engage in asset sales to pay down debt and return the economy to pre-crisis levels of growth. The sale of Australia Post's delivery services was a live consideration within the current Federal Cabinet even before the impact of the economic shut-down on the Corporations profitability.

What follows is an estimation of the likely sale price of Australia Post in the current market, beginning with a comparative analysis of the sale of the UK's Royal Mail.

Privatisation of the Royal Mail, United Kingdom

The sale of the UK's Royal Mail in 2014 provides a useful comparator for estimating a potential sale value of Australia Post.

Prior to the sale of Royal Mail Group the company had undergone significant restructuring in the face of the shift to digital communications. In 2007, Royal Mail started a long-term transformation program to improve efficiency. Total spending on improving the efficiency and profitability of the Royal Mail exceeded £2 billion over five years.

In 2012, the Royal Mail Group was separated from the Post Office business, with the latter remaining in public ownership. The government took over Royal Mail's historic pension liabilities, which were valued at a deficit of £8.6 billion. Wide ranging regulatory reforms, including the removal of most price controls, were legislated. Stamp prices were allowed to rise significantly, from 41pence and 32pence for first- and second-class stamps respectively in 2011, to 60pence and 50 pence in 2013.

The combination of these factors contributed to a turnaround in the company's cash flow. It generated £334 million cash in 2012-13, reversing negative cash flow of £493 million in 2008-09.

In the lead up to the sale, the Shareholder Executive part of the Department for Business, Innovation & Skills (the Department) placed significant reliance on financial advisers. It appointed an independent corporate finance adviser and delegated to it a wide range of tasks, including independent advice covering valuation, selecting, supervising, and overseeing the allocation of shares by the banking syndicate, and exploring other sale options. The Department also appointed a syndicate of banks to market and allocate shares to potential investors.

Growth in online shopping had made a positive impact on Royal Mail's parcel business. Between 2010-11 and 2012-13, parcel volumes in the UKPIL business increased from 973 million items to 1,064 million items (an annualised growth rate of 4.6 per cent) and respective revenues rose from £2,348 million to £2,933 million (an annualised growth rate of 11.8 per cent).

The euro revenues of Royal Mail's European parcel business, General Logistics Systems (GLS), also grew at an average rate of 3.1 per cent in each of the three years to 2012-13, to reach £1.5 billion. Parcels made up approximately half of Royal Mail's turnover by 2013, indicating that it was adapting to the new e-commerce environment.

Despite these significant investments, successful adaptation to the changing market and the government absorption of the pension deficit, the Department estimated that the value of retaining Royal Mail in public ownership was less than £1 billion (£1 per share). The calculation assumed that if the IPO did not proceed, Royal Mail's profits would decline relative to recent performance, based on factors such as historical underperformance and the Department's view of industrial relations issues under public ownership.

The Department placed rigid limitations on both the sale time and IPO range – from 260 to 330 pence per share. The sale began within this price range, despite their being indications that the market would pay much more: expressions of interest exceeded the available shares by a factor of seven.

		Actual sale data
5-Oct-13	60% shares sale at 330, the top end of 260-330 price range.	£1,980,000,000
11-Jun-15	15% at £5.00	£750,000,000
13-Oct-15	13% at £4.55	£591,500,000
	Total	£3,321,500,000

Table 2: Royal Mail share sales

On the first day of conditional trading, Royal Mail's shares closed at 455 pence (38 per cent higher than the sale price) and in the following five months have traded in the range of 455 pence to 615 pence. This led to critical assessments by business analysts, the Audit Office and several Parliamentary Committees, with Adrian Bailey, chairman of the Business, Innovation and Skills committee, saying:

> *It's not at all clear that the government's sale of Royal Mail has brought an adequate and appropriate return for taxpayers. The government cannot blithely dismiss as 'froth' our committee's concern that the low issue price of this prime public asset has cost the taxpayer around a billion pounds.*

		Actual sale data	At market rate first day trading (455)	At average market price over first 5 months of trading (535)
5-Oct-13	60%	£1,980,000,000	£2,700,000,000	£3,210,000,000
11-Jun-15	15%	£750,000,000	£682,500,000	£802,500,000
13-Oct-15	13%	£591,500,000	£585,000,000	£695,500,000
	Total	£3,321,500,000	£3,967,500,000	£4,708,000,000
	Shortfall		£646,000,000	£1,386,500,000

Table 3: Potential share sale values

Estimating the sale value of Australia Post

The value of Australia Post can be roughly estimated by comparing the assets, profitability, revenue, price to earnings ratio and some more speculative measures. Below we discuss various measures for assessing the sale value.

1. Book value. Although not necessarily instructive, the net assets of Australia Post are $2313.1 million
2. The last twelve month (LTM) revenues are equal to $6,990 million. However, given the low rate of return, weighting for LTM revenues should be low.
3. Comparable sales. Postal privatisations are by nature few and far between. A flurry of privatisations occurred in the early 2000 in Europe and Japan. As such the Royal Mail privatisation is more recent. Below we provide a table converting revenues and assets from 2013 GBP to 2020 AUD. This enables us to calculate the ratio of the size of Australia Post to the Royal Mail.

	Aus Post 2019	Royal Mail 2013 (GBP)	2019 GBP (adjusted for inflation)	2020 AUD (adjusted for inflation and exchange rate)	Ratio AP/RM
revenues	6878.4	9,146	10560	20030.1	0.343
net assets	2,313.10	1,405	1622	3076.3	0.752

Table 4

Following the calculation of these ratios, we can apply them to the actual Royal Mail sale price, the price at initial trading and the average price over the first 5 months of trading.

	Actual	Initial trading rate	5 month average
Royal Mail sale scenarios 2014 GBP	£3,321,500,000	£3,967,500,000	£4,708,000,000
Adjusted for inflation	£3,746,717,772	£4,475,418,564	£5,310,717,228
Converted to AUD 2020	$7,101,052,455	$8,482,139,280	$10,065,258,154
Aus Post valuation revenue ratio	$2,438,523,981.73	$2,912,793,586.66	$3,456,441,639.82
Aus Post valuation net asset ratio	$5,339,350,659.45	$6,377,803,324.60	$7,568,165,860.65

Table 5: Royal Mail valuation conversion

	Weighting	Value based on actual sale (AUDM)	Value based on initial trading (AUDM)	Value based on 5 month av (AUDM)
Book value	0.1	231.31	231.31	231.31
LTM Revenues	0.2	1398	1398	1398
Actual				
RM sales (revenue)	0.35	$853.48	$873.84	$1,036.93
RM sales (net assets)	0.35	$1,601.81	$1,913.34	$2,270.45
Total (AUDM)		$4,084.60	$4,416.49	$4,936.69

Table 6: Australia Post potential sale value

Given the long-term unprofitability of Royal Mail prior to modernisation, the value of Australia Post may be greater than accounted for by these calculations, as Australia Post is further along the modernisation process than Royal Mail was in 2014. There are also a greater number of competitor companies able to slice off sections of the profitable parcel business in the UK market than in Australia, primarily due to the low profitability of mail delivery in sparsely populated regional and rural areas our vast land mass, which further improves the relative position of Australia Post.

A more complete market analysis would assist in making these calculations more accurate. For example, it is likely that the value of future parcel trade will increase the profitability of the Corporation despite the declining letters service.

These caveats aside, we assess the sale value of Australia Post to be approximately A$5billion, if it were sold under more market driven criteria than was the Royal Mail. Given the likely reduction in the quality of service, and an expected rationalisation of jobs; and compared to the returns to the Commonwealth through shareholder dividends, taxes and other charges, the privatisation of Australia Post would be a short-sighted, productivity draining response to the fixed-term crisis brought about by the COVID-19 pandemic.

National security implications of privatising Australia Post

As we have witnessed through the first phase of the COVID-19 crisis, the postal service plays a critical role in a crisis. This value must not be underestimated. The huge shift to home deliveries of food, medicines and other essential items has increased dramatically over the past few months, and is particularly important for vulnerable groups.

The postal service also plays a national security and public safety role, dealing with natural disasters, elections, identity theft and even in counter terrorism operations. It is the only universally accessible means of communication, with the unique ability to make contact with every household almost every day. This is a deeply undervalued characteristic of a nationally owned postal service.

In other countries these national security and public safety characteristics are tested more frequently and thus more highly valued. In the US, the USPS has proved to be a pivotal national security asset in recent times:

- It has managed attempted mass murder and assault via anthrax poisonings, and assisted in the police investigations to identify culprits.
- Following hurricane Katrina, which knocked out phone lines to 3 million households, and destroyed 50% of television and radio services across three states, the Federal Emergency Management Agency relied on the USPS to provide emergency information to every home.
- In 2009 President Obama signed an executive order to create plans by which posties would deliver medicines door to door in the event of a biological attack.[3]

[3] https://obamawhitehouse.archives.gov/the-press-office/executive-order-medical-countermeasures-following-a-biological-attack

While our experience in Australia of mail-related terrorism, may have thus far been less severe than the US, and while the likelihood of an attack by a foreign power with chemical weapons may be lower, it is nevertheless vital that we protect this unique national infrastructure. Selling off parts or all of the post would weaken the overall capacity of the Postal service to respond to the needs of a government in crisis.

Aside from these extreme examples, Australia Post is a frontline agency against scams, identity theft and fraud. The threat from these crimes are multibillion dollar industries and are increasing year on year.[4] If anything, greater federal investment should be made to utilise the vast infrastructure and data capacity of Australian Post to secure citizens, business and government from such attacks.

Public views about the privatisation of Australia Post

Keeping Australia Post in public hands is strongly supported by the public, as demonstrated by the findings of the Essential Media survey commissioned by the CEPU. A quarter of respondents (26%) saw a case for privatisation, while 47% either somewhat or strongly opposed such a measure.

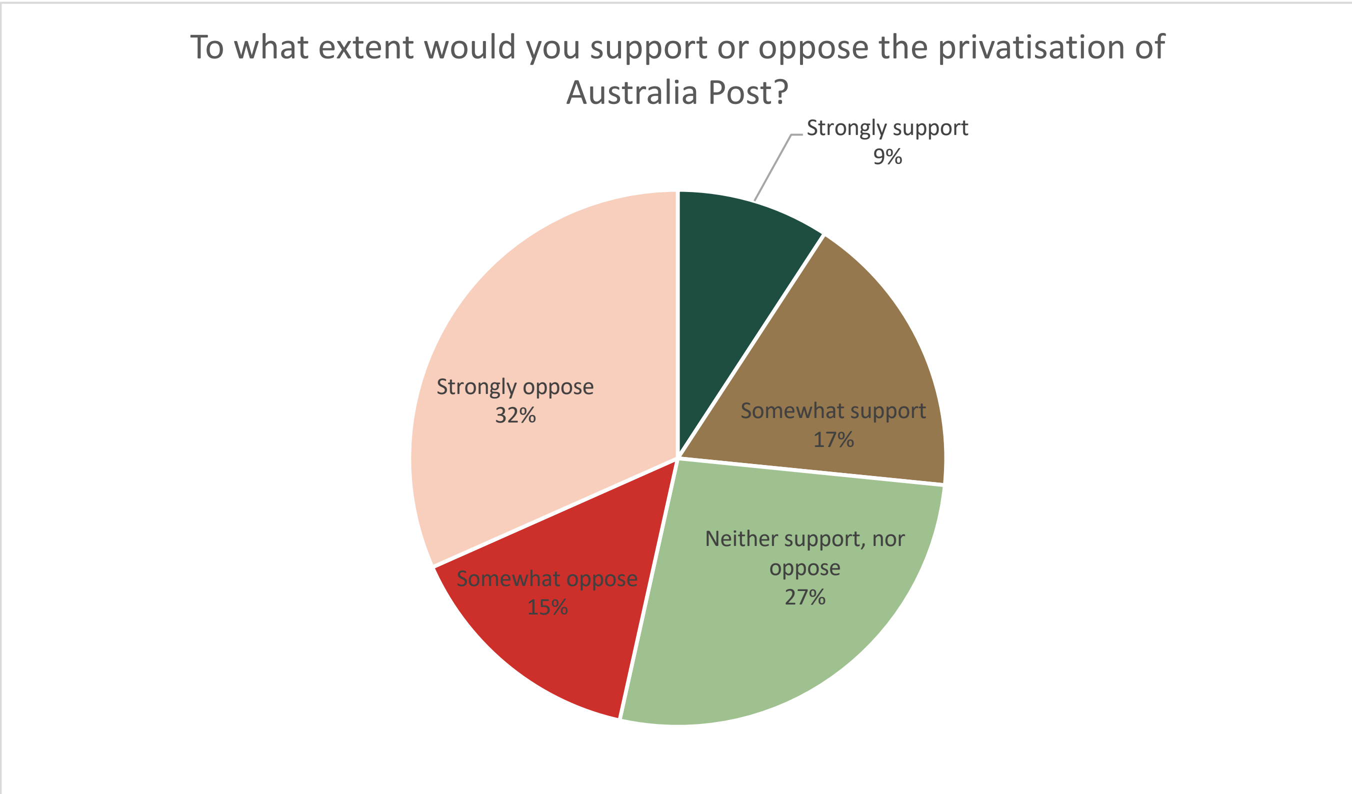

Figure 6

The level of support for public ownership is relatively uniform across demographic groups, with "strongly oppose" being the most common response to privatisation across all demographic groups, regardless of party identification, employment status, location or income group.

There is also nearly 10% greater opposition for non-capital city dwellers for maintaining public ownership, suggesting that regional are rural citizens are likely to oppose privatisation more than their metropolitan counterparts.

[4] https://www.abc.net.au/news/2019-09-06/drivers-licence-identity-theft-leaves-victims-exposed/11439668

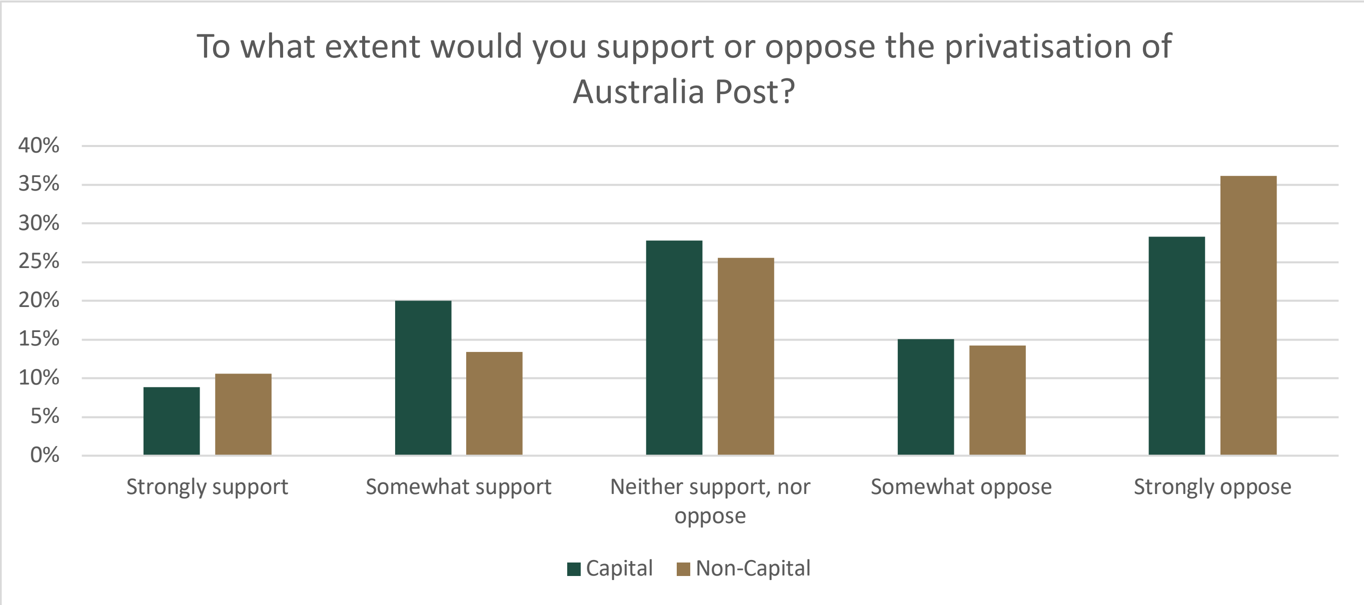

Figure 7

Low income respondents are more likely to strongly oppose privatisation than wealthier individuals.

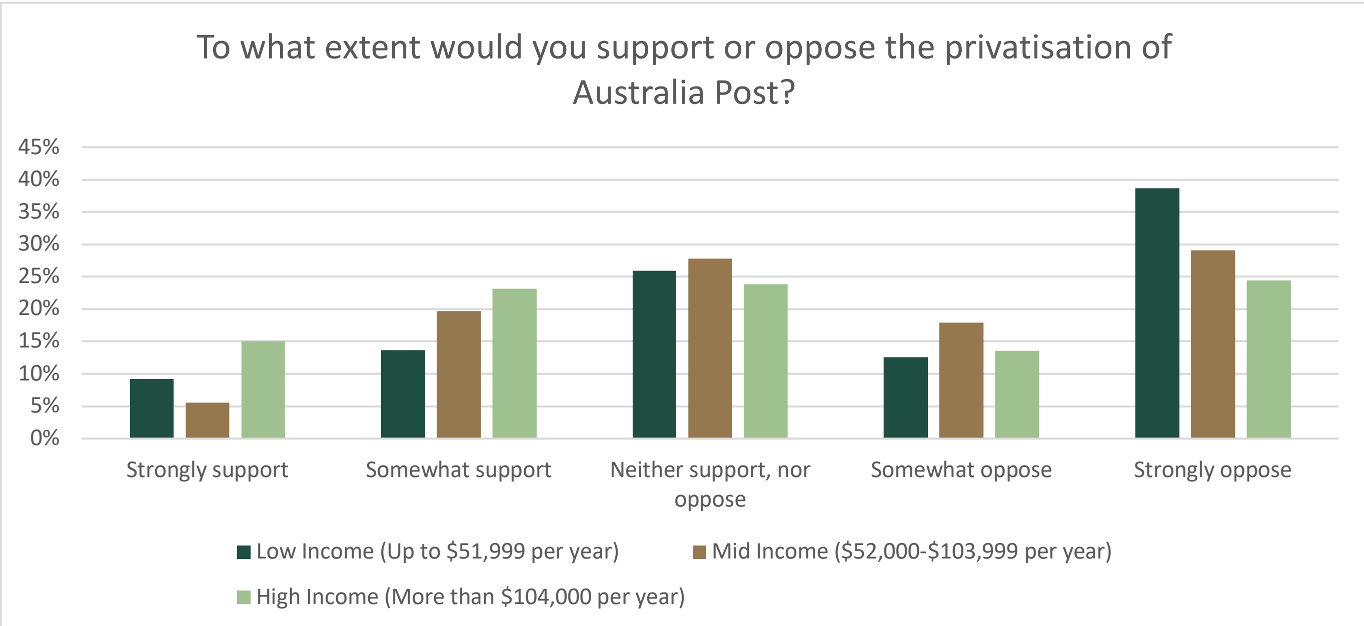

Figure 8

Retirees are the most likely group overall to oppose privatisation of any demographic group.

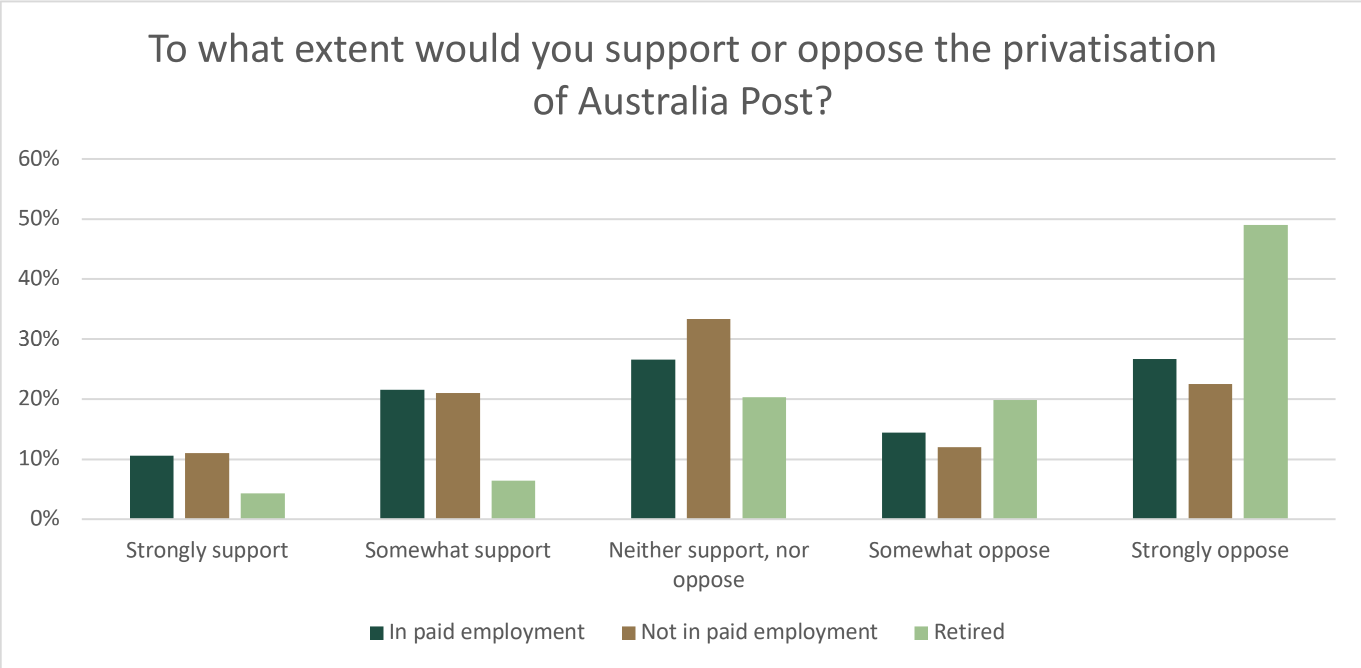

Figure 9

Among political preferences, there is slightly higher strong support for, and fewer people strongly opposed to, privatisation among Coalition voters. Opposition to the privatisation of Australia Post is highest among voters who support minor parties, such as Centre Alliance and One Nation, and independent candidates, with more than half of these voters opposed, 43.3 per cent strongly.

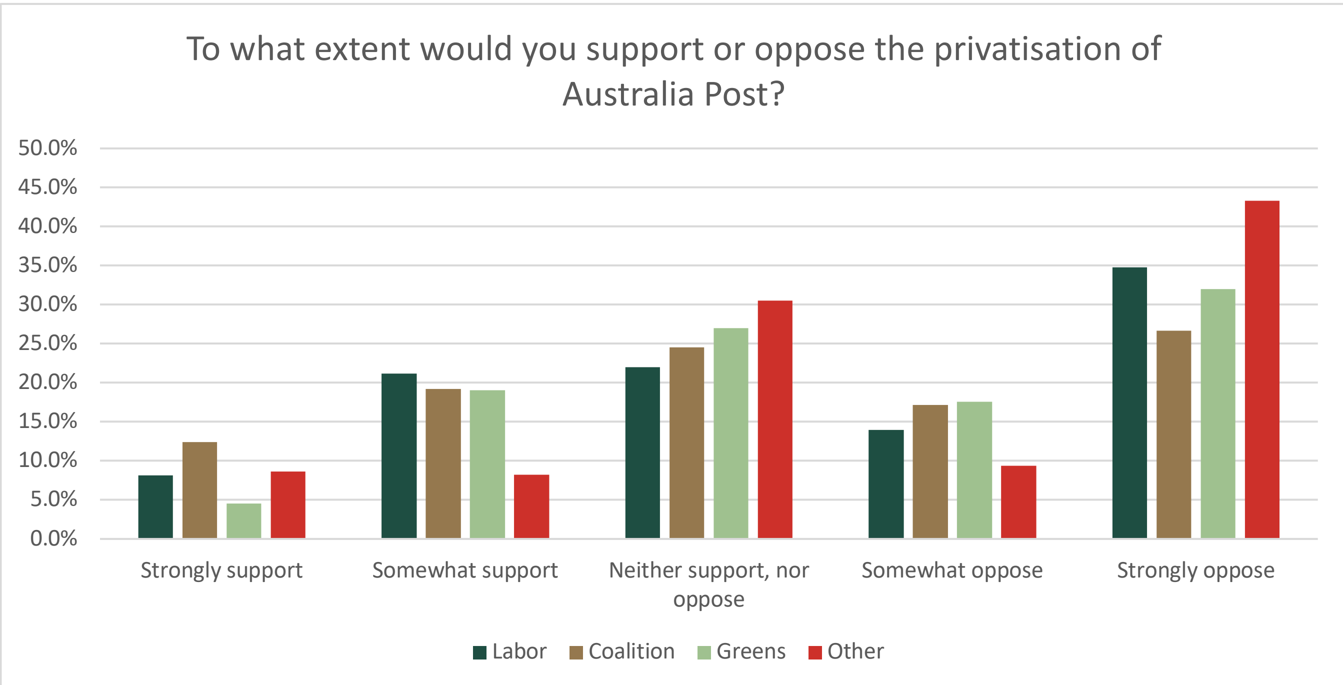

Figure 10

Conclusion

Australia Post is, as this report has demonstrated, a trusted essential service, used frequently and valued highly by all Australians.

With the rise of online shopping and e-commerce, and the decline of many community services, such as banks, in regional and rural Australia, the services provided by Australia Post are likely to become more important to households and businesses across the nation.

It is incumbent upon government to ensure that Australia Post is maintained in public ownership, and provided with regulatory certainty to enable it to continue to fulfil its essential function within our economy, and to the Australia people.

Further, the quality and reliability of the services Australia Post provides must not be further eroded by misguided attempts to reduce operational costs that will only impose higher costs on small and medium businesses, and households, as Australians work to restore our economy and standard of living in the wake of the COVID-19 pandemic.

We make the following recommendations to support the ongoing viability of Australia Post, the security of its workforce, and the value of its services to the Australian people.

Recommendations

For Government

1. An unequivocal government commitment to keeping Australia Post in public ownership.

2. Legislation to impose a Universal Parcel Obligation by amending the Australian Postal Corporation Act 1989.

3. Consideration of extending Australia Post services, including through the possible establishment of a public banking service through Australia Post's vast physical and online network.

For Australia Post Management

1. A commitment that there will be no reduction in the quality or frequency of letter or parcel deliveries.

2. A commitment to maintain current staff levels across Australia Post retail outlets (post offices), transport, processing and delivery services (posties, for both letters and parcels).

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Appendix C – Discussion Paper – PostBank: Filling A Void, Securing Essential Services

percapita
FIGHTING INEQUALITY IN AUSTRALIA

POSTBANK: FILLING A VOID, SECURING ESSENTIAL SERVICES

A DISCUSSION PAPER BY PER CAPITA
FOR THE COMMUNICATIONS, ELECTRICAL AND PLUMBING UNION OF AUSTRALIA

EMMA DAWSON, ABIGAIL LEWIS, AND WARWICK SMITH

AUGUST 2020

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About Per Capita

Per Capita is an independent public policy think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia based on fairness, shared prosperity, community and social justice. Our research is rigorous, evidence-based and long-term in its outlook.

We consider the national challenges of the next decade rather than the next election cycle. We ask original questions and offer fresh solutions, drawing on new thinking in social science, economics and public policy.

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Acknowledgements

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Executive Summary

This discussion paper makes the case for the creation of a public bank in Australia by providing Australia Post with an Authorised Deposit-taking Institution (ADI) licence, and moving in time to establishing *PostBank* as a full national savings and loan bank.

The paper examines the history of banking in Australia, the dominance of the 'big four' commercial banks, the findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Banking Royal Commission), and the current state of banking services for rural and remote communities in Australia.

It looks at examples of banking services offered through postal networks in other countries, and offers suggested business models and funding options for creating a *PostBank* in Australia, before addressing some of the barriers and challenges to establish such a service.

The Banking Royal Commission found that many Australians did not have adequate access to basic financial services, and that even those who did are often ill-served by our existing financial institutions.

Just as we would not leave the creation and maintenance of our health system or our roads entirely in private hands, we should not leave our banking services, financial infrastructure and financial stability entirely in private hands.

The establishment of a postal banking service in Australia would, by operating within the existing infrastructure footprint of Australia Post outlets nation-wide, provide banking services to Australians who are currently underserviced by the existing banking sector.

With a social benefit mandate, such a bank could also improve banking services across the country by setting new standards for financial products and services that other banks will have to meet if they are to compete.

Moreover, *PostBank* could ensure the continuation of postal services in remote and regional communities, and underpin the ongoing viability of Australia Post's services across Australia.

We propose a phased approach, which would begin with the opening of basic savings and transaction accounts, followed by credit cards and personal loans, then the introduction of mortgages for owner occupied and small investor real estate followed by commercial lending with an initial focus on agricultural and other regional and rural business lending.

This phased approach would allow a steady, staged rollout of new services with profits and capital from one stage funding the rollout of the next phase, thus minimising initial capital requirements.

A government owned bank offers many benefits to Australians, including improving services for currently 'underbanked' customers, especially in rural and regional areas; improving standards across the financial services industry; and providing stability to Australia's economy in times of volatility in international financial markets.

Introduction

The big picture: why public banking?

An essential service

Like healthcare, clean water, and education, banking is an essential service; necessary to fully participate in a modern society. As such, banking services should be available to all and subsidised for those who may struggle to afford them if provided by the market. The Banking Royal Commission published its final report in February 2019. The Commission found that many Australians did not have adequate access to basic financial services and that many services made use of information asymmetry to create greater value to the banks than to the customers (Hayne, 2019).

Just like education and healthcare, there is a strong argument for the public provision of banking services that will set a standard that private banks must meet if they are not to lose their customers to the public institution. This model of leading by example reduces the need for complex regulation, monitoring and enforcement that has, so far, proven ineffective in maintaining standards and protecting customers in Australia. The argument for a public bank is particularly strong in Australia where the market power of the 'big four' banks, the Commonwealth Bank of Australia, ANZ, Westpac, and the National Australia Bank, results in a lack of competition in the Australian banking industry.

Similarly, instead of government subsidies or regulating private banks to provide services to remote communities and those with disabilities who may find access to standard banking services difficult, a public bank could provide these services directly, subsidised by the profits from its other banking services.

Essential infrastructure

Perhaps even more importantly, there are many reasons to treat banking as essential economic infrastructure. Like roads, ports, and train lines, the banking system is essential for the functioning of a modern state. At a simple level, banks provide a payment system that allows businesses and individuals to relatively effortlessly make to payments to each other and to store their money safely. At a more profound level, the banking system is responsible for meeting the demand for money (credit).

Banks do not simply accept deposits and then lend them on at a higher interest rate, as is commonly believed. Instead, they create money when they lend. This is how the supply of money in a modern economy meets the demand for money. When businesses or households wish to spend more money than they have, they typically apply for a loan with a bank. Upon the successful granting of a loan, the bank simply credits the customer's account with the funds. They don't transfer that money from somewhere, they just type it into existence. This new liability for the bank is offset by the creation of an asset, the loan. Most of the money in use in Australia is created by banks. For a more detailed explanation of the role of private banks in money creation see the Reserve Bank of Australia's Bulletin (Doherty, Jackman, & Perry, 2018) and Bank of England's Quarterly Bulletin (McLeay, Radia, & Thomas, 2014). This creation of credit, *ex nihilo*, by banks, is the fundamental underpinning financial infrastructure of a modern market-based economy.

During economic downturns and recessions, private borrowers, both individuals and businesses, can struggle to secure finance, as banks become more risk averse. The tightening of the money supply can exacerbate economic downturns, leaving government stimulus spending the most effective method for reducing the extent of the downturn and speeding up recovery. A government owned bank with a federal government guarantee, could adopt a less risk averse attitude to lending during economic downturns and, working in concert with fiscal authorities, could play a significant role in avoiding or reducing the severity of recessions.

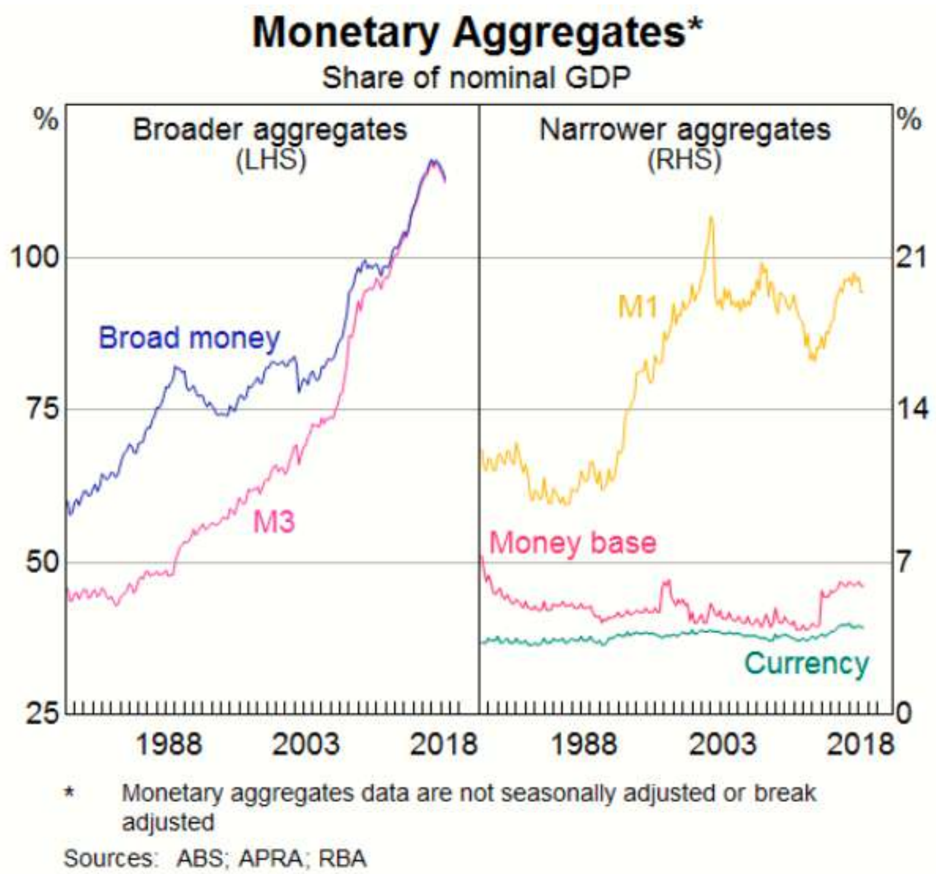

Figure 1. Types of money in the Australian economy. M1 (RHS) is bank money, created when banks make loans. Reproduced from Doherty, Jackman, & Perry, 2018.

Sustainable economic growth and stability

The evidence suggests that countries with substantial publicly owned banking are likely to economically outperform those with little or no public banking (Andrianova, Demetriades, & Shortland, 2012). This is explained by the fact that a public bank can be mandated to serve public or national interests rather than simply serving commercial interests. There is substantial scope for a public bank to accept lower financial returns or higher risks in order to achieve greater social returns. Examples include a focus on productive business lending as opposed to lending for speculative real estate investment. It would also be possible to mandate lending practices that are both financially and environmentally sustainable and to include environmental criteria in the loan approval process for commercial lending.

As we saw globally in 2008, when the banking system is in crisis, the entire economy is in crisis. In turn, the entire banking system can be put into crisis by the failure of a single large bank. It is clearly undesirable to have the entire economy dependent on the stability of individual private companies. This “too big to fail” situation creates moral hazards for the banks, who increase their risk tolerance because they know the public will bail them out rather than let them fall. This in turn makes them even more exposed and vulnerable, increasing the likelihood of a public bail out. A substantial public bank that is explicitly backed by a federal government guarantee would dramatically increase the stability of the system as a whole because it would reduce the potential domino effect of an individual bank crisis or insolvency. As author Helen Brown put it, "we do not want to leave the [economy's] on/off switch to the whims of 'the market'. Nor do we want to leave it to the machinations of self-serving private owners".

"In the world's leading countries, the finance sectors have crashed but we are still surviving because we nationalised our banking sector." Indian Finance Minister Pranab Mukherjee, 2009 (quoted in Brown, 2013)

During economic downturns private bank lending declines, not only because the demand for credit decreases but the risk appetite of the banks decreases. This exacerbates the downturn, both in size and duration. Public banks, by contrast, can act countercyclically and increase lending during downturns, particularly for projects like clean energy infrastructure and generation. This type of countercyclical lending would amplify the impact of RBA monetary policy, which is often less effective during economic downturns or recessions.

Because public banks are run by government employees who do not receive bonuses for the promotion or sale of specific products, the kinds of corrupt and unethical behaviour uncovered by the Banking Royal Commission are much less likely. This will make them more trusted than the private banks and this, in turn, will make the private banks work hard to increase public trust in them. This domino effect of improved services, behaviour and culture has the potential to transform the entire banking sector without the need for complex regulation and enforcement.

Recently we have seen the Reserve Bank of Australia (RBA) cut interest rates by 0.75% but the big four banks, on average, have only cut mortgage rates by three quarters of that amount. This has led politicians and others to accuse the banks of gouging customers and undermined the capacity of the RBA to stimulate the economy. Neither the government nor the RBA can force private banks to pass on RBA rate cuts. However, a public bank could be mandated (perhaps with a few prudential safety caveats) to pass on central bank rate cuts in full. This would create a more competitive banking environment and likely lead to lower borrowing costs for households and businesses. Of course, the costs of such a mandate must also be considered, including reduced bank profits, shareholder returns and superannuation fund growth.

Just as we would not leave the creation and maintenance of our health system or our roads entirely in private hands, we should not leave our banking services, financial infrastructure and financial stability entirely in private hands.

The banking environment in Australia

The history of public banking in Australia

The Commonwealth Bank

The story of the Commonwealth Bank of Australia (CBA) is a dramatic illustration of the enormous potential of public banking as well as a warning of the private opposition to it. It's a classic story of the right action at the right time by the right people having a profoundly positive impact on the Australian economy and on the lives of many Australians.

In response to the private banking crisis of the late nineteenth century, Labor politicians decided that a repeat of the crisis could be prevented by the establishment of a publicly owned bank that was backed by the Treasury. The legislation that created the CBA was passed in 1911 and the bank began operating in 1912 with the first branch opening in Melbourne.

Figure 2. The first Sydney branch of the Commonwealth Bank of Australia opened in January 1913. From CBA Archive.

Two of the key figures in the establishment of the CBA were its first governor, Denison Miller, and King O'Malley, both ex-bankers. They understood the money creating power of banks and believed this could be utilised for public benefit.

The bank did not require an capitalisation through an injection of funds from the government but simply opened branches and began accepting deposits. Combined with the transfer of £2,000,000 of Commonwealth Government funds held with private banks, this capital was sufficient to launch the full range of banking services.

During its early years between 1911 and 1924, the CBA had many major achievements and had a profound impact on the banking sector and the Australian economy more broadly. Understanding the power of a bank with the explicit backing of the federal government, Governor Miller financed the Australian war effort through WWI to the tune of £350 million as well as keeping the Australian agricultural sector afloat (Amos, 1940).

Almost immediately upon opening, the CBA, through the setting of its own fees and interest rates, forced the private banks of the time "to practically abolish their charges on current accounts, and to keep their charges on loans and overdrafts within reasonable limits" in order to remain competitive (Amos, 1940). The CBA also almost immediately began pro-actively lending to agricultural and food processing businesses and played a major role in sustaining and growing Australia's agricultural industries.

The move to central banking and the end of activism

At the end of the First World War, Miller made a fateful trip to London in which he explained to London bankers how he had funded the war and how he could service the debts incurred because the bank had the entire wealth of Australia behind it (Lang, 1963). According to Lang, this caused near panic among London's financial elite. While the colony may have had political independence, it was still financially controlled from London. Miller and the CBA represented a threat to this control. The response was swift, and it came in the guise of central banking.

In 1920 legislation was passed that handed over the issue of Australian notes to the CBA. This was the beginning of the creation of the CBA as Australia's central bank, a function that now belongs to the Reserve Bank of Australia. Once again, Governor Miller understood the power that comes with central banking and a government guarantee and knew that the capacity of the bank to finance investment in Australia was only limited by the country's capacity to support that activity. In other words, finance is only limited by the productive capacity of the real economy, not the other way around.

> *"The whole of the resources of Australia are at the back of this bank, and so strong as this continent is, so strong is the Commonwealth Bank. Whatever the Australian people can intelligently conceive in their minds and will loyally support, that can be done."*
> *Denison Miller, first governor of the Commonwealth Bank of Australia, 1921.*

The expansion of the CBA from a publicly owned commercial bank to a central bank was also the beginning of the downfall of its capacity to innovate and discipline the banking sector through leadership. The board of directors formed in 1920 only to oversee the note issuing function of the bank was, after the death of Governor Miller in 1923, expanded into the Commonwealth Bank directorate in 1924.

This new directorate was composed primarily of banking industry insiders, some of whom were nominated directly by the private banks. They almost immediately reigned in the CBA's early activist and community benefit role within the sector through a series of reforms that brought it into line with the private banks, instead of forcing them to come into line with it. In effect, the private banks had neutralised the threat to their profits from a public bank that was genuinely acting in the public interest. As an example, within a year the interest and other charges paid by the agriculture industry to the CBA more than doubled from £3 million to £7 million. The Labor party opposition at the time opposed the *Commonwealth Bank Bill 1924* and accused the government of trying to strangle the public bank and prevent its expansion (Hansard, 1924) but the Bill passed and the CBA's rapid expansion came to a temporary standstill.

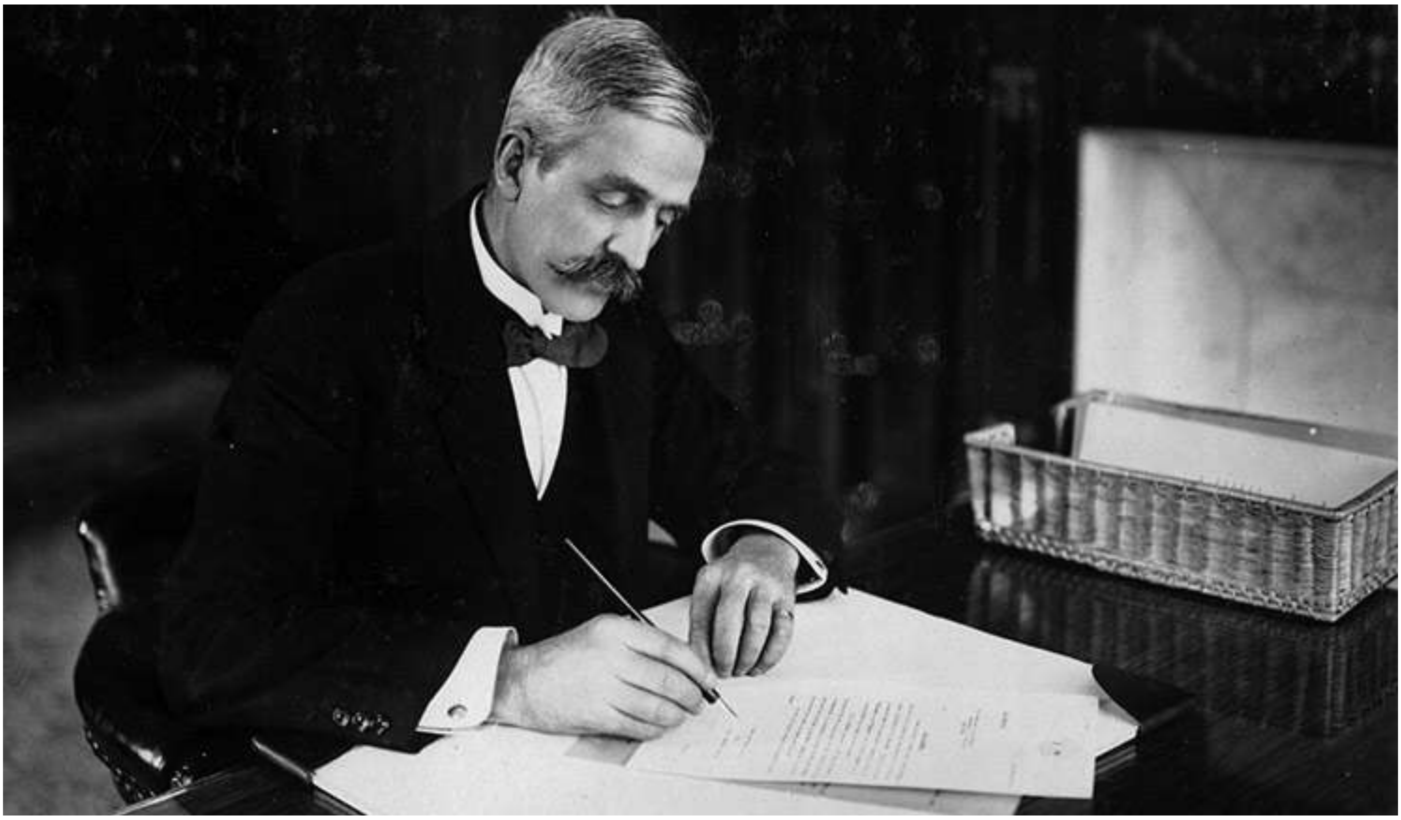

Figure 3. Denison Samuel King Miller, the first governor of the Commonwealth Bank of Australia. Governor from 1911 until his death in 1923. (*Image from* CommBank web site).

The effective control of the CBA by private bankers contributed to a foreign debt crisis in 1930 that resulted in the government accepting a crippling set of demands made by The Bank of England to assist with foreign debt payments.

> *"To-day, you may behold a continent on its knees. It has bowed to [The Bank of England's] dictation. It will cut down its imports. It will lay the axe to all its expenditure on social services, including education. It will reduce the salaries of its civil servants. It will cut wages all round. It is prepared for an increase in unemployment from the present 18% to a possible 30%. It is kissing the rod that chastened it… And so Australia is in the banker's hands." Journalist H. N. Brailsford quoted in Hansard* (Parliament of Australia, 1930)

During World War Two the CBA was given emergency powers to assist in funding the war effort. These powers, in some respects, resembled how Governor Miller, ran the bank for its first twelve years and through the First World War, issuing as much credit as was needed. In the late forties, in the aftermath of the war, the CBA used these powers to once again rapidly expand, opening hundreds of new branches throughout the country and financing the rapid expansion of the Australian economy in what became known as the post-war boom. Despite massive federal government debts incurred during the war, the CBA continued to assist in the financing of ongoing government deficits which resulted in strong economic growth, very low unemployment, and rapidly falling government debt to GDP ratios.

The CBA continued to operate two separate functions, as a central bank and as a government owned commercial bank, until the formation of the Reserve Bank of Australia in 1959. The CBA then continued as a government owned savings and loans bank and continued to discipline the private banks by setting a minimum standard of service and charges until it was sold to private investors by the Keating government, a process that began in 1991 and was completed in 1996. Following privatisation the predictable closure of less profitable branches, ATMs, and other services ensued. Access to banking services declined in remote and regional Australia and the CBA became just another private bank. So ended, in many ways a very successful story of public banking in Australia.

Detailed treatises on the rise and fall of the CBA as a people's bank can be found in *The Story of the Commonwealth Bank*, (Amos, 1940) and in Jack Lang's book *The Great Bust: the Depression of the Thirties* (Lang, 1963). The key lessons from the history of the Commonwealth Bank are threefold: the power and capacity of a public bank run in the public interest to both discipline the private banking system and to further Australia's economic and social interests; the importance of individual leadership in reform, and the vulnerability this creates; and, finally, the capture of the public bank by the private banking sector acting to protect their power and associated profits. This history is critically important to any discussion about the creation of a new publicly owned bank in Australia.

State banks

Throughout Australia's banking history many of the states and territories have seen the rise and fall (or merge) of their own state government-run banks.

In Tasmania, a number of small-scale commercial banks proliferated in the early years after settlement. Many of these banks failed or were absorbed into larger banks over the course of the nineteenth century, but the Launceston Savings Bank and the Hobart Savings Bank both survived well into the twentieth. In the mid-1980s, the Tasmanian Government attempted to merge these two trustee savings banks into a single state bank. The merger failed, but the Launceston Savings Bank merged with the Perpetual Executors Building Society to form the Tasmania Bank, which faced crisis in 1989 and was subsequently merged with the Hobart Savings Bank using state government funds to form the Trust Bank of Tasmania.[1]

The Trust Bank was "viewed by Tasmanians as a very important financial institution" and held its place in the Tasmanian community as a backer of local business and a community sponsor.[2] Unable to compete in the Australian banking market of the 1990s, the Trust Bank was acquired by Colonial Limited in 1999, continuing as Colonial Trust Bank, but ultimately taken over by the Commonwealth Bank when it merged with Colonial in 2000. During the initial takeover by Colonial, the Labor state government promised no job losses, no branch closures, and a "net benefit" for Tasmanians from its sale of the bank, and on those grounds called on the federal government to block the merger with Commonwealth, which would result in 300 jobs lost and 17 branches closed in Tasmania.[3]

The Queensland Government Savings Bank was established in 1861 by one of the earliest pieces of legislation passed by the government of the new colony of Queensland. It was set up to encourage small deposit saving by working people, and grew over the latter half of the nineteenth century to absorb local savings banks in Moreton, Ipswich, and Toowoomba. When the federal government's Commonwealth Bank opened branches in Queensland from 1912 it also merged the state postal services into the federal system, quickly replacing Queensland's state bank postal agencies with its own (Skully, 1985). The Queensland Government Savings Bank merged with the Commonwealth Bank in 1920.

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[1] https://www.utas.edu.au/library/companion_to_tasmanian_history/B/Banking%20and%20Finance.htm
[2] https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=CHAMBER;id=chamber/hansards/2000-06-28/0122;query=Id:%22chamber/hansards/2000-06-28/0000%22
[3] https://www.greenleft.org.au/content/bank-merger-will-hit-tasmania-hard

The Government Bank of New South Wales was established in 1871 and experienced sustained growth and expansion over sixty years; by 1929, its Board of Commissioners proclaimed it the second largest savings bank in the British Empire (Polden, 1971). Just two years later, the Bank would collapse during the Great Depression and merge with the federal Commonwealth Bank. In 1933, the New South Wales government established the Rural Bank of New South Wales, which primarily lent to farmers until 1982 when its mandate was expanded to a standard commercial bank and its name changed to the State Bank of New South Wales. The Bank was 'corporatised' in 1990 and sold to Colonial in 1994, and also ultimately taken over by the private Commonwealth Bank in 2000.

In Victoria, the Savings Bank of Port Philip was founded in 1842 as a government-control savings bank, merging with other independent savings banks over time to form the State Savings Bank of Victoria in 1912. Like many other state banks, it was renamed in the 1980s to the State Bank of Victoria before collapsing in 1990 and subsequently being sold to the private Commonwealth Bank.

Western Australia had a Post Office Savings Bank from 1863, which became the Government Savings Bank of Western Australia in 1906. As in New South Wales, the bank collapsed during the Great Depression and was incorporated into the federal Commonwealth Bank in 1931. However the Agricultural Bank of Western Australia, established by the state government in 1895, continued until 1945 when it was renamed the Rural and Industries Bank of Western Australia, taking on a broader mandate as had happened in New South Wales. In 1994 it was renamed again in preparation for privatisation, to BankWest, and then sold initially to the Bank of Scotland in 1995, which then merged with the Halifax Group to form HBOS in 2001 and sold Bankwest to the private Commonwealth Bank during the global financial crisis in 2008.

The history of state government-run banks in Australia is one of well-established banks that were seen as local institutions and were able to back clients and customers who struggled to find finance elsewhere, like local businesses and farmers. At the same time, it is a history of small scale banks unable to compete in a national market or to weather the storm of financial crises; and finally, a history of a privatisation narrative in the 1990s that none of the state-run banks could survive.

The dominance of the 'big four'

Today the 'big four' banks – ANZ, the Commonwealth Bank, NAB, and Westpac – unquestionably dominate the Australian banking industry, which is one of the most concentrated and profitable banking industries in the world. Between them, the 'big four' own 76.4% of total banking assets in Australia,[4] and account for 82% of all bank lending and 78% of all bank deposits.[5] These combined assets total more than $3.6 trillion – more than twice the value of Australia's total annual economic output.[6] The 'big four' are more profitable than comparable banks anywhere else in the world, with a profit margin of 36.4% and net

[4] https://financialservices.royalcommission.gov.au/publications/Documents/some-features-of-the-australian-banking-industry-background-paper-1.pdf, Chart 3
[5] https://www.tai.org.au/sites/default/files/IP%204%20Money%20and%20Power_4.pdf, page 4
[6] https://www.abc.net.au/news/2019-02-01/how-did-the-big-four-banks-become-so-dominant/10767994

profit after tax of $7.8 billion in the June 2017 quarter.[7] Their profits equate to 2.9% of Australia's GDP, [8] meaning that of every $100 spent in Australia, nearly $3 ends up as underlying profit for these four banks.[9]

As we have seen, early Australian governments were already engaged in efforts to create competition between banks, establishing various state banks and, after Federation, the federal government owned Commonwealth Bank in 1911. The argument for a national bank at that time was "based on the proposition that the existing banks were avaricious and incompetent" and that their behaviour had contributed to the banking crisis of the 1890s (Gollan, 1968). At that time, it was thought that a government-run bank could act as a socially responsible competitor, setting the floor for banking standards.

As the twentieth century era of bank regulation progressed, the banks lost share of the market to smaller competitors like building societies and credit unions; by the late 1970s their share of the credit market had shrunk to 50%.[10] This raised concerns that Australian banks – almost all of which were Australian-owned – were losing business to non-bank financial intermediaries that could not be regulated in the same way and which were predominantly "foreign-owned" (Whitlam, 1985). A school of thought that the direct regulation of the banking system was no longer working began to take hold (Martin, 1999). The Cambell Inquiry of 1979 laid the groundwork for the process of financial deregulation that took place under the Hawke/Keating government in the 1980s.

Unregulated, the banks once again began to move towards a more dominant share of the credit market, increasing their share steadily and passing a 90% share in 2010.[11] At the same time, the 'big four' banks consolidated and increased their share of the banking market, from 67% of all lending in 1991 to 82% in 2012.[12] As outlined above, in the 1990s the Commonwealth Bank was privatised and joined the ranks of the private 'big four' banks merging with or acquiring state government-run and smaller private banks.

As the 'big four' consolidated their position throughout the 1990s, concerns about the concentrated nature of the Australian banking industry led to the articulation of an unwritten 'four pillars' policy to reject any further merger or acquisition between the four major banks. However, the 'four pillars' policy has not prevented 'common ownership' of the banks, and an analysis carried out by *The Australia Institute* found that at least 53% of shares in each of the 'big four' banks is owned by shareholders that are among the top 12 shareholders in *all* the 'big four' banks *as well as* the second-tier 'big three' regional banks: Bendigo, Suncorp, and Bank of Queensland.[13]

Over the course of the 2000s, and influenced in no small part by the banks' role in the global financial crisis, a narrative began to form of 'bad behaviour' by the 'big four' banks.[14] A series of inquiries into the

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[7] https://financialservices.royalcommission.gov.au/publications/Documents/some-features-of-the-australian-banking-industry-background-paper-1.pdf, page 12

[8] https://www.tai.org.au/content/australias-banks-most-profitable-world

[9] https://www.tai.org.au/sites/default/files/IP%204%20Money%20and%20Power_4.pdf, page iv

[10] https://www.tai.org.au/sites/default/files/TB%2015%20The%20rise%20and%20rise%20of%20the%20big%20banks_4.pdf, Figure 2

[11] Ibid.

[12] Ibid, Table 1

[13] https://www.tai.org.au/sites/default/files/TB%2015%20The%20rise%20and%20rise%20of%20the%20big%20banks_4.pdf, page 2

[14] https://theconversation.com/a-history-of-failed-reform-why-australia-needs-a-banking-royal-commission-64803

financial services system failed to fully address the sector's growing concentration or continued cases of misconduct[15] and ultimately, the Banking Royal Commission was called.

The Banking Royal Commission

The final report of the Banking Royal Commission (the Hayne report) made 76 recommendations addressing key aspects of the banking, superannuation, financial advice, and rural lending industries.[16] The Hayne report also made 24 referrals to the banking and financial services regulators ASIC and APRA for possible criminal or civil action.

The Commission uncovered significant problems with the way financial products were being sold, using practices such as 'conflicting remuneration' (being paid by a client to advise them and also being paid by a bank or financial service to provide them the client) and heavy-handed unsolicited selling of insurance products. It recommended banning practices like these and introducing a compensation scheme for clients affected.

The Commission also found that rural and regional customers, especially farmers and other agricultural producers, were having particular issues with the banks. For example, the Commission reported that banks were charging default interest on loans secured by farmland in areas subject to drought or natural disasters. Justice Hayne made a series of recommendations in this space including establishing a national scheme for farm debt mediation, amending the banking code of conduct so that people in remote areas or without English as a first language can access banking services fairly, and ensuring that managers of distressed farm loans are always experienced agricultural bankers.

The regulators ASIC and APRA are to be retained but the Commission recommended introducing ga new independent authority to oversee them and ensure they are discharging their responsibilities, particularly ASIC which will be required to change its approach to enforcement, prosecuting more often rather than settling out of court.

Just over a year on from the Hayne report, the extent to which its recommendations will be implemented or the banking and financial services sector reformed is not yet clear. There are approximately 40 pieces of Commission-related legislation on the Morrison government's parliamentary agenda for 2020 and it remains to be seen how this legislation will be approached. Treasurer Josh Frydenberg has already abandoned the recommendation to ban commissions for mortgage brokers, for example, and the banking industry has initiated a "quite robust" pushback against more regulation.[17]

Banking services for rural and regional Australia

About 28% of the Australian population live in regional or remote areas: nearly 7 million people. The Banking Royal Commission found that banks have been steadily closing branches in regional and remote areas for some years, and that as remoteness increases, access to a bank branch, a face-to-face banking

[15] https://theconversation.com/a-history-of-failed-reform-why-australia-needs-a-banking-royal-commission-64803
[16] https://www.royalcommission.gov.au/sites/default/files/2019-02/fsrc-volume-1-final-report.pdf
[17] https://www.theguardian.com/australia-news/2020/feb/01/banking-royal-commission-one-year-on-optimism-over-changes-but-banks-fight-back

service, or an ATM decreases.[18] The situation is particularly acute in remote or very remote areas. This lack of access to financial products and services can be compounded by the fact that mainstream products designed for bank users living major cities may not be suitable for users in regional and remote areas. The Banking Royal Commission also found that the cost of financial products and services can be relatively high in regional and remote areas, compared to in urban areas.[19]

The Australian Bankers' Association (ABA) attributes the closure of bank branches across Australia to a consumer trend away from using face-to-face banking services and towards using electronic, online, and other digital banking services.[20] However, responding to this trend by closing bank branches can disenfranchise regional and rural bank users who may also have difficulties accessing the internet and other digital services they need to take advantage of online banking and electronic transactions. There is a significant "digital inclusion gap" in Australia and that people living in country areas are still significantly less likely to be able to have full internet access.[21]

The Australian Treasury ATM Taskforce has also noted that people living in remote areas spend "much more in aggregate on ATM fees than their urban counterpart", reflecting their lack of access to bank branches or to affiliatd ATMs.[22] The Taskforce found that typically, remote consumers are only have access to one local ATM and therefore "have no alternative to paying direct fees for balance enquiries and cash withdrawals."[23] ATM withdrawal limits also tend to be more enforced in regional and remote areas, which can be problematic precisely because the relative distance from goods and services can mean people need more cash on hand.

The Banking Royal Commission collected evidence from the Treasury and the Centre for Social Inclusion that shows people who are geographically financially excluded can be at risk of reliance on "high-cost, short-term, small amount lending" due to a lack of financial options and services, including financial products that are arguably predatory or exploitative.[24]

Both the Banking Royal Commission and the ABA identify that in locations where no bank branch is available, particularly regional and remote areas, the existing Bank@Post service provided by Australia Post was a useful alternative.[25] The number of Bank@Post access points has increased as the number of bank branches has decreased.

Banking services for Aboriginal and Torres Strait Islander people in remote Australia

The geographic financial exclusion experienced by regional and remote Australians is felt even more keenly by Aboriginal and Torres Strait Islander Australians, who are more likely to live more remotely. Only 2% of Australia's ATMs are located in locations defined as remote or very remote,[26] under-serving the 18%

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[18] https://financialservices.royalcommission.gov.au/publications/Documents/fsrc-paper-18.pdf
[19] Ibid, page 15
[20] Australian Bankers' Association, Industry Standards: ABA's Branch Closure Protocol, available at https://www.ausbanking.org.au/industry-standards
[21] https://digitalinclusionindex.org.au/wp-content/uploads/2016/08/Australian-Digital-Inclusion-Index-2017.pdf
[22] https://treasury.gov.au/sites/default/files/2019-03/atm_indigenous.pdf, page 3
[23] Ibid.
[24] https://financialservices.royalcommission.gov.au/publications/Documents/fsrc-paper-18.pdf, page 21
[25] https://financialservices.royalcommission.gov.au/publications/Documents/fsrc-paper-18.pdf, page 11, 17
[26] https://financialservices.royalcommission.gov.au/publications/Documents/fsrc-paper-18.pdf, Chart 2

of Aboriginal and Torres Strait Islander people live in remote or very remote locations.[27] Aboriginal and Torres Strait Islander Australians face other barriers to equal access to banking services as well, such as a lack of accepted identification documents (17.9% of Aboriginal and Torres Strait Islander people who are severely excluded from access to mainstream financial services had difficulties opening a bank account because they could not provide the types of identification documents they were asked for, compared to 8.7% of non-Indigenous people), unemployment and lower incomes, (leading to lower superannuation balance and higher likelihood of having to rely on fringe credit rather than mainstream lending services) lower financial literacy (leading to higher likelihood of being sold inappropriate insurance products and lower likelihood of being able to access credit products that are appropriate), and non-traditional family structures (leading to poorer access to life insurance and superannuation benefits).[28]

[27] https://financialservices.royalcommission.gov.au/publications/Documents/aboriginal-and-torres-strait-islander-consumers-of-financial-products-background-paper-19.pdf, Chart 4
[28] https://financialservices.royalcommission.gov.au/publications/Documents/aboriginal-and-torres-strait-islander-consumers-of-financial-products-background-paper-19.pdf, Table 1

International examples of post office banking

Successful post office banks have run in many countries over the last 200 years. However, over the last fifty years many have been victims of their own success and been privatised as part of economic rationalist trends around the world towards smaller governments and fewer government run enterprises. Remaining or re-established successful postal banks include Post Office Money in the UK, Kiwibank in New Zealand, Banque Postal in France, Post-Finance in Switzerland and Banco-Posta in Italy.

Country	Service	Number of customers	No. of employees	Profits of postal financial services	Sales	Profits of group	Fin/services % of total profits/sales
United Kingdom	Post Office Money [15]		80-100 at HQ		£301 million out of £940 million	UK PO does not publish profits by sector	32%
New Zealand	Kiwi-bank[16]	800,000	1,000	$122 million NZ before write down of IT and then $58 million		$27 million NZ[17]	214%
France	Banque Postale [18]	10.7 million	2,541	538 million € before tax 477 million € after tax		975 million € (before tax)[19]	55%
Swit-zerland	Post-Finance [20]	3 million	3,599	542 million CHF[21]		558 million CHF[22]	97%
Italy	Banco-Posta[23]	9.55 million users 5.8 m depositors[24]	1,824	813 million €		622 m. €	144%

Sources: All figures are from the 2016 annual reports of the Post Office Groups and Postal Banks

Table 1. Major successful postal banks. Table reproduced from (Anderson, 2018).

New Zealand

Like Australia, New Zealand has a long and chequered history with public banking. New Zealand's Kiwibank is probably the most relevant international example for the Australian context because of the similarities of the private banking environment (mostly the same dominant banks) and that it was relatively recently established after a period with no public banking.

Post Office Savings Bank

The Post Office Savings Bank in New Zealand was first established in 1867 primarily to provide savings and banking services to small investors and to provide loans to government. The

The Post Office Savings Bank operated successfully until 1987 when it was split from the New Zealand Post Office and renamed PostBank. It existed briefly as PostBank before being sold to ANZ in 1989 and being subsumed into the ANZ brand during the 1990s.

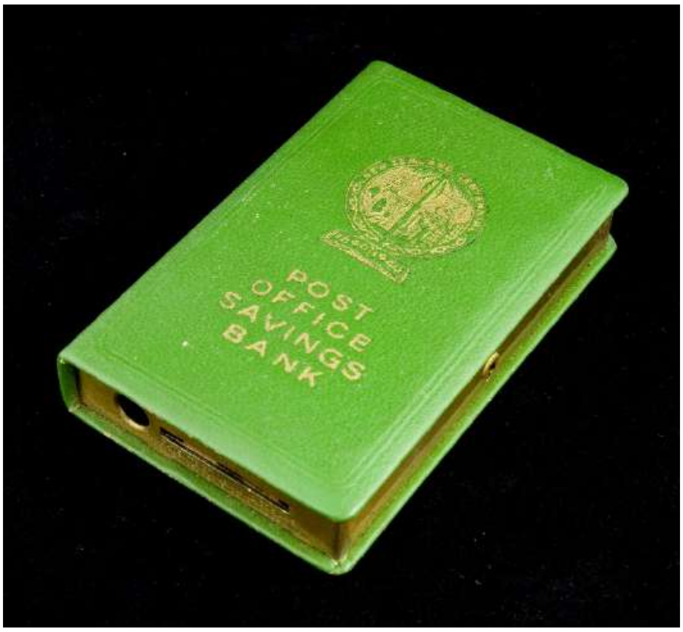

Figure 4. Post Office Savings Bank, circa 1939-1940, Birmingham, by Pearson Page Dewsbury Co. Ltd. Purchased 1996 with New Zealand Lottery Grants Board funds. CC BY-NC-ND 4.0. Te Papa (GH004866)

Kiwibank

The establishment of Kiwibank was championed by New Zealand politician Jim Anderton, whose dogged pursuit of the idea and ultimate success is captured in this anecdote from the New Zealand Herald (New Zealand Herald, 2011):

> *"Mr Anderton delighted Parliament with a new story of the negotiations with Labour - and the nudge given by deputy leader Annette King to then Finance Minister Michael Cullen. "Annette King finally turned to Michael Cullen after three hours of this and said these immortal words: 'Michael, Jim's beaten back every argument against the bank we've ever put up, for God's sake give him the bloody bank.' And Michael Cullen said: 'Oh, all right then."'*

Just like the story of the establishment of the Commonwealth Bank in Australia, the role of a single determined individual, in the right place at the right time, was pivotal in the formation of Kiwibank.

Prior to the establishment of Kiwibank, New Zealand's banking industry was dominated by Australia's big four banks, the Commonwealth Bank, Westpac, ANZ and National Australia Bank. Kiwibank formally launched in 2002 with 211 branches, mostly in post offices. By 2008, KPMG concluded that banking fees and charges in New Zealand were lower, at least partly as a result of the competition provided by Kiwibank (Milner, 2008).

Thanks to a "move your money" public advertising campaign Kiwibank had more than 500,000 customers within five years (out of a population of 4 million) and quickly became one of New Zealand's most trusted banks and remains at or near the top of customer satisfaction surveys to this day (Roy Morgan, 2019). Kiwibank posted its first profit only three years after opening its first branches.

Japan

Japan Post Bank

Like the early history of the Commonwealth Bank of Australia, The Japanese Post Bank (JPB) is an instructive example of what can be achieved for the people, the government and the economy with a well utilised public bank. Established in 1874 but really hitting its strides as a public bank after the Second World War, by 1990 it was the largest financial institution in the world (Calder, 1990). Despite paying lower interest rates than Japan's private banks, the JPB attracted Japanese savers because they considered it safer (Brown, 2013). Part of the reason for its establishment was to generate credit domestically and in order to avoid the foreign indebtedness experienced by China and the Ottoman empire at the time (Scher, 2001). This was entirely successful and the JPB went on to become such a prominent source of finance for public expenditure that it was sometimes referred to as 'Japan's second budget'. Credit created by the JPB was used to fund local government expenditure and expenditure of numerous government owned enterprises and was managed through the Ministry of Finance (Brown, 2013).

This public financing, which did not require increased taxation, was part of the formula that brought Japan rapidly from a defeated and severely damaged country after the Second World War to an economic powerhouse and the third largest economy in the world by the late twentieth century.

As part of the almost global move away from public provision of services and the privatisation of public companies, there has been intense pressure to privatise the Japan Post and with it the bank. This pressure was resisted for decades but the reconstruction costs from the 2011 tsunami finally provided privatisation advocates with the ammunition they needed to defeat those holding onto government ownership. Either no longer understood or wilfully ignored was the possibility of the JBP creating the necessary bank credit and thus keeping the bank in private hands and achieving the necessary reconstruction. The capacity of the bank to do this, demonstrated through its past activity, demonstrates that the privatisation is ideologically driven, not economically driven. The process of privatisation is now well underway and it is likely that the Japanese government will become a minority shareholder in 2020 from its current 57% shareholding.

Japan's experience with a publicly owned bank that supplied finance for public expenditure has now shaped the Japanese government's relationship with their central bank, the Bank of Japan, which currently owns about 30% of the Japanese government's debt. The government owns the bank of Japan which means, in effect it owes this money to itself. Both the current situation with the Band of Japan and the past funding of public expenditure by the JPB demonstrate the capacity of publicly owned banks to play a defining role in a nation's economic and social outcomes.

Canada: the campaign for a return to postal banking

Canada Post operated as a bank for 100 years, from 1868 to 1968, providing banking services throughout Canada's provinces. Recently the Canadian Union of Postal Workers (CUPW) has been campaigning for a return to postal banking in Canada for many of the same reasons outlined above, including the inadequate access to banking services for many regional and remote Canadians, particularly Indigenous Canadians, the need to improve the competitiveness of banking services, and the potential broader social benefits from publicly owned banking (Anderson, 2018). This campaign is very well developed with several reports and discussion papers and promotional videos that have been used in public advertising

(Canadian Union of Postal Workers, 2019). Unlike the situation in Australia and New Zealand (prior to the establishment of Kiwibank), there are already publicly owned provincial banks in Canada but, despite this, there are still strong arguments for a postal bank due to the national coverage and capacity to provide services to those currently underbanked.

The campaign and thinking regarding postal banking in Canada is far more advanced than in Australia and such a campaign in Australia could benefit substantially from international collaboration between the two countries relevant trade unions and other interest groups.

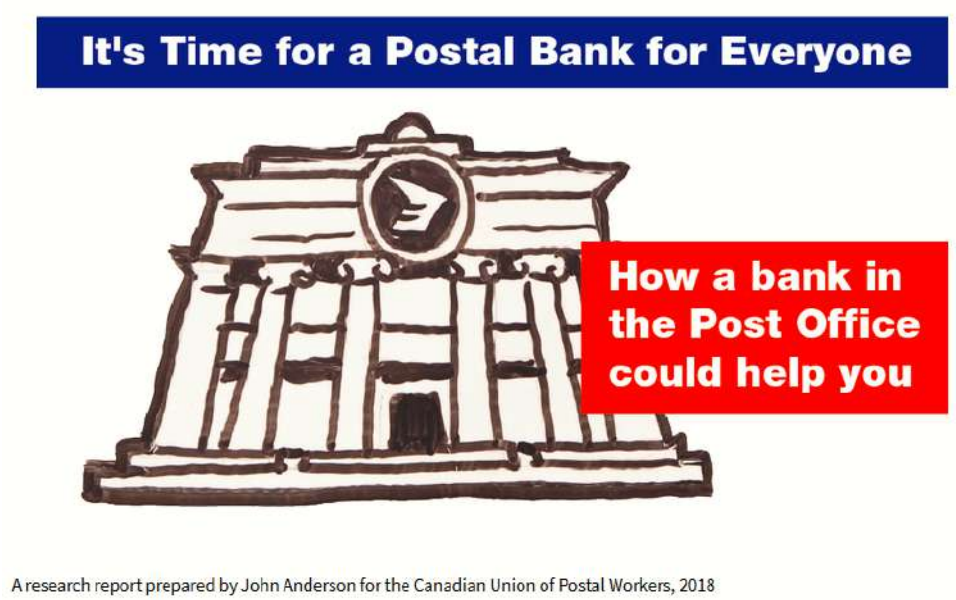

Figure 5. A promotional image as part of the campaign to establish postal banking in Canada.

Australia Post as a bank: the opportunities, risks and benefits

Why Australia Post?

Not a new idea

In 2009, six prominent economists signed an open letter calling for a financial systems inquiry (it took nine years, but they eventually got what they asked for in the Banking Royal Commission). In that letter they also asked:

> *Should citizens who feel unsure and unqualified to shop wisely in our financial markets be able to access basic savings, payments, and wealth management products that have been vouchsafed by governments as being safe and professionally managed (eg, why can't Australians invest with the Future Fund)? In this regard, is there a role for a publicly-owned entity, akin to KiwiBank in New Zealand, to offer essential services in Australia's finance sector that leverage off unique government infrastructure (eg, Australia Post, the tax system, and the government bond market)* (Gans, 2009)

In 2013 the Communication Workers Union made a submission the National Commission of Audit recommending the establishment of postal banking services as a way to ensure the ongoing viability of Australia Post (Hutchings, 2014) and there has been ongoing public speculation that Australia Post is seriously considering the move (West, 2018).

Existing retail presence

Banking in Australia is notoriously uncompetitive with market dominance of the big four banks a serious concern for the quality, cost and coverage of banking services (Hayne, 2019). The main reason for this lack of competiveness is the very high cost of entry for new businesses and the biggest cost is the establishment of a branch network. In 2018, Australia Post maintained 4,356 post offices, 2,538 of which were in rural and regional areas - 58% of the retail network (Australia Post, 2018). Expanding these retail outlets to become bank branches would go a long way to addressing concerns raised about regional and remote banking in the Banking Royal Commission's interim and final reports (Hayne, 2018a, 2019).

Providing financial services to those currently underserved or excluded

A public bank with a social benefit mandate, operated from post offices, has enormous potential to improve financial inclusion in Australia. Despite there being around half as many post offices as there are bank branches in Australia, post offices are far more equitably distributed (Delaney, O'Hara, & Finlay, 2019). Many regional and remote communities lack bank branches or ATMs and the number of bank branches in Australia has been in slow decline for many years (Delaney et al., 2019; Hayne, 2018b; Parliamentary Joint Committee on Corporations and Financial Services, 2004). However, many communities not served by bank branches or other ADIs do have post offices (see Figure 6). International experiences have shown that postal banking services do indeed improve financial inclusion (Anson, Berthaud, Klapper, & Singer, 2013).

Figure 6. Australia Post outlets that are more than 50km from the nearest bank branch. Reproduced from (Delaney et al., 2019)

PostBank could not only provide access to banking services in remote indigenous communities but could also provide teams of specialist indigenous financial literacy educators and interpreters. Such a service could have substantial flow-on effects to the social and economic health of those communities.

Improve banking services across the country by leading best practice

As a government owned entity, a *PostBank* could make use of federal government sovereign guarantee to access wholesale funds at low cost, or even receive funds from the federal government as investment. This would allow the *PostBank* to offer competitive rates on loans and deposits, which would in turn, incentivise other banks to offer better products to customers. This is precisely what happened almost immediately after the Commonwealth Bank began offering low cost banking services in 1912. The other banks almost immediately lowered their fees and other charges in order to compete for business with the new publicly owned bank (Amos, 1940).

While it may not be financially viable to maintain bank branches in many remote and regional communities, the sharing of bricks and mortar infrastructure between post offices and *PostBank* combined with a federal treasury financial guarantee would reduce *PostBank's* operational costs. These reduced costs, combined with a social benefit mandate, would enable *PostBank* to subsidise banking services for those who are currently underbanked and unlikely to be served by the existing banks and other ADIs.

PostBank would help to keep Australia Post's other services viable

Traditional postal services are in decline due largely to electronic communications. Despite the fact that parcel delivery has risen substantially and Australia Post remains profitable, the business model of Australia Post is likely to continue to see disruption and uncertainty.

Despite operating under a social mandate, rather than a purely profit-seeking mandate, *PostBank* would likely remain highly profitable and create new revenue for Australia Post and the federal government (assuming it remains under federal government ownership). By sharing branch operating costs with Australia Post, *PostBank* would be effectively subsidising postal services in remote and regional Australia and would help prevent closure of post offices. If necessary, profit from the bank could be directly used to subsidise post office operation in order to ensure equitable public access to both banking and postal services. This has long been the case for Japan Post, which is mandated to provide postal services across the country even though these run at a loss. Japan's postal services are subsidised by the profits of the Japanese Post Bank.

Revitalising regional communities

State and Commonwealth governments are advocating for decentralisation, in part to take population and infrastructure pressure off our major cities. As a government owned bank, *PostBank* could play a pivotal role in financing proactive sustainable regional development that will assist decentralisation.

The Banking Royal Commission found that farmers have been poorly served by the current banking system with poor outcomes across the agricultural sector and rural and regional Australia (Weller & Argent, 2018). Indeed, government policy regarding financial deregulation and the abolition of 'single desks' that protected farmers from many market fluctuations have effectively financialised the farming industry largely to the detriment of farmers (Larder, Sippel, & Argent, 2018).

PostBank could lead the way when it comes to reforming lending practices to agricultural businesses as recommended by the Banking Royal Commission (Hayne, 2018a) by building specific expertise in regional banking and understanding of agricultural businesses. There is also great potential for a publicly owned bank with a social mandate to fund rural and regional infrastructure and regional development (Figart, 2017), reinvigorating our regions and reducing population pressure on capital cities. The Banking Royal Commission emphasised the social responsibility that banks have to rural and regional communities, but this often conflicts with their higher order responsibility to shareholders. Private banks are not driven by a social mandate and holding to a social mandate involves complex monitoring and regulation. *PostBank*, by contrast, if it was appropriately constituted and governed, would have no such conflict of interest.

Financing community transition to a post-carbon economy

By aligning *PostBank's* social mandate with regenerative agriculture practices, sustainable development and Australia's transition to a low carbon economy, *PostBank* could play a pivotal role in diversifying and future proofing the Australian economy in a banking environment that would otherwise have been too risk averse, or too focussed on lending for asset speculation. The low wholesale funding costs available as a result of a government guarantee would enable *PostBank* to endure a higher risk profile with their lending practices while remaining competitive and profitable.

Federal government loan programs could be consolidated into departments of *PostBank*. These could include the Australian Renewable Energy Agency, the Clean Energy Finance Corporation, and the Pension Loans Scheme

There are many potential innovative financial products that *PostBank* could offer over time. These might include infrastructure bonds that would allow superannuation funds to invest in Australian infrastructure, something that fund managers have expressed frustration about. The combination of a federal government guarantee with a public benefit mandate would make *PostBank* a natural destination for ethical investment, providing extra revenue for the bank and much needed funds for social and environmental programs in Australia.

The perfect moment

The fallout from the Banking Royal Commission is yet to really be understood but the challenge of reigning in the excesses of the private banking system is immense. The establishment of a public bank is certainly not a panacea for these problems, but it could make a major contribution to the improvement of banking services across the industry through providing a service standard benchmark. The combination of Australia Post's physical outlets and post office staff, who already process financial transactions throughout Australia, makes Australia Post the ideal candidate for a new, government owned bank that could be up and running relatively quickly. The establishment costs for an Australia *PostBank* would be very low compared to the establishment of a new banking business and represents the perfect opportunity to address many of the shortcomings in the Australian banking system that were brought to light through the Banking Royal Commission.

Business models for a PostBank

We recommend that whatever specific business model is adopted that the new postal banking service be constituted as a wholly owned subsidiary of Australia Post. This maximises the likelihood that the Australia Post and the bank remain financially connected and the bank provides a mechanism through which postal services can be subsidised for regional and remote communities. This suggestion does not preclude state and territory governments acquiring a share of Australia Post and, along with it, a share of *PostBank* as part of the capitalisation of the new bank (see *Who will pay for it?* below).

Simple deposit taking institution

The simplest beginning model for a *PostBank* is purely as a deposit taking institution, without loan services. The business model here would be the establishment of a bank that offers retail accounts and standard banking facilities such as EFTPOS, online payments etc. This is a relatively straightforward development for Australia Post to make as it would require minimal training and infrastructure for retail staff and outlets and, without the need to assess credit worthiness and manage loans, would require a relatively lean banking team.

PostBank's revenue under this model would come from lending the deposits to other banks in the wholesale money market. This could be the final banking model or a stepping stone to *PostBank* providing the full range of banking services, including business and household lending. It's worth noting that this is how the Commonwealth Bank began operations, building capital through deposits that was quickly used to underpin its expansion into the full range of banking services (see 'History of Public Banking in Australia' section above).

Full savings and loans bank

The other extreme would involve *PostBank* offering the full range of retail and commercial banking services including mortgages, personal loans, credit cards, and business finance. While this model has the potential to generate far more revenue for Australia Post, it requires much more significant staff recruitment and training and far more substantial start up costs than the simple deposit taking institution outlined above. Rolling existing government agencies that provide loans into *PostBank* would create efficiencies and skill transfer in credit assessment but the task of building the capacity from scratch to launch a full range of lending services would still be substantial. Under this model the primary source of revenue would be mortgage lending, credit cards, and business lending.

It is this model, implemented with a social benefit mandate, that has the potential to discipline the Australian banking sector, reinvigorate productive business lending, and speed up Australia's transition to a post-carbon economy.

We recommend a phased approach with the ultimate goal a full national savings and loans bank. This phased approach would begin with the opening of basic savings and transaction accounts, followed by credit cards and personal loans, then the introduction of mortgages for owner occupied and small investor real estate followed by commercial lending with an initial focus on agricultural and other regional and rural business lending. This phased approach would allow a steady, staged rollout of new services with profits and capital from one stage funding the rollout of the next phase, thus minimising the initial capital requirements.

Either model outlined above, or something in between, has the potential to provide the revenue necessary to maintain Australia Post's retail presence in the face of diminishing use of traditional postage services, maintain less profitable postal services and increase Australia Post's dividends to government. It is also through the provision of competitive and secure banking services that *PostBank* will have a positive impact on the entire retail and commercial banking sector in Australia. The greater the range of banking services PostBank could offer, the greater the potential benefit to the Australian community, environment and economy (see 'Why public banking?' section above).

As a relatively recently established postal banking service, Kiwibank provides an excellent template for how Australia Post could become a bank. Indeed, Kiwibank executives have in the past publicly offered to advise Australia Post on the setting up of a postal bank in Australia (Stuff.co.nz, 2009).

Insurance and investment banking

While there are good arguments for a government owned insurance business, for simplicity's sake we do not propose that *PostBank* considers entering into the insurance industry at this stage. This may be something *PostBank* considers in the medium to long term once the banking business is consolidated. There is no reason Australia Post or *PostBank* could not continue offer third party insurance products.

By contrast there appear to be few reasons *PostBank* would ever operate investment banking services, except to gain market share for the purposes of additional revenue.

Who will pay for it?

An initial injection of capital would be required to provide the liquidity necessary to begin offering banking services. This could come directly from the federal government, who would remain the owner of the bank, through its ownership of Australia Post. The amount would depend on the initial ambitions of the bank. Domestic and international banking experience tells us that this initial investment by the federal government would attract a return far beyond the borrowing costs.

An alternative path to kickstart *PostBank* that would not require large investment of public money would be for public institutions, including state and local governments, to agree to bank with *PostBank*. This would immediately provide the liquidity needed to start banking operations and begin revenue generation through wholesale lending to other banks. Each of the states used to have their own bank, which have all since been privatised (see 'History of Public Banking in Australia' section above). They now contract private commercial banks to provide their banking services. With the *Banking Act 1945* the federal government attempted to compel state governments to bank with the Commonwealth Bank but this move was ruled unconstitutional by the High Court in 1947. However, this ruling would not preclude state and territory governments agreeing to such a move through Commonwealth Heads Of Government Meeting/Council Of Australian Governments processes. State and local governments and other government organisations banking with *PostBank* would not only provide *PostBank* with very substantial liquidity, it would also save significant public money that is currently spent contracting private banks to provide these services.

Even this level of government involvement may not be necessary if the same approach was taken as Commonwealth Bank Governor Dennis Miller took in 1912 when he simply opened branches and started taking deposits and used these to capitalise the broader banking services. Combining this approach with a public campaign to switch banks, as was done successfully in New Zealand for the establishment of Kiwibank, could quite rapidly see a substantial number of individuals and businesses move their banking to *PostBank*.

Whichever approach is taken, it's clear that the capitalisation of the bank is readily achievable and need not be a drain on public finances. As a point of reference, Kiwibank was established with only $NZ80 million in capital.

State, territory and federal governments could provide the initial funds necessary to train existing staff, recruit banking staff and build or acquire the necessary physical infrastructure to set up the bank. This could be a way for state governments to purchase equity in *PostBank*. Shared ownership by state and federal governments would increase the commitment to public banking and provide a much-needed new revenue source for state and territory governments. It may also protect *PostBank* from privatisation or capture by the financial industry should a federal government be elected that is poorly disposed to public banking.

Barriers and challenges

One of the key potential risks is that *PostBank* becomes a victim of its own success. If it becomes a successful and profitable institution with a substantial customer base, then it will be a constant temptation for governments to sell it. One safeguard against this, as outlined above, is to have both state and federal government ownership and require unanimous agreement before the connection between the bank and Australia post can be severed or before Australia Post can sell any portion of the bank to non-government investors.

Upgrades to existing infrastructure and security

While the existing post office network provides a fantastic starting point for a bank network, substantial investment may still be needed to upgrade post offices to bank branches, potentially including extra office space in larger branches for branch managers and upgraded security.

The 'big four' banks

Banking is not only extraordinarily profitable in Australia but also represents substantial private power. Any serious suggestion from government or Australia Post about the establishment of a new, government owned bank in Australia is likely to trigger an unprecedented private campaign of opposition from the 'big four' banks, who stand to lose market share and, more importantly, market power as a result. As the Banking Royal Commission demonstrated in numerous ways, market concentration and associated market power, combined with information asymmetry, currently gives the big four banks the capacity to put profits ahead of service quality and customer value. They can be expected to attempt to defend this market dominance with their considerable financial and political power.

Even if these challenges are overcome and the *PostBank* is established, it can be expected that the private banks will put constant pressure on governments to privatise it, break it up or cease its public benefit function just as they have done in Japan with the Japan Postal Savings System (Scher, 2001) and they did with the Commonwealth Bank of Australia.

The risks to existing positive trends in banking

Australia has a 180 year history of financial mutuals, also known as customer-owned banking institutions. The sector currently comprises 47 credit unions, 22 mutual banks and three building societies. Collectively, they serve over 4 million Australians, with a total asset base of more than $110 billion. They mainly offer services to the consumer finance and housing market (COBA, 2019).

These ADIs are subject to the same regulations and legal obligations as are the big, for-profit banks, and are regulated by APRA under the *Banking Act 1959* and incorporated under the federal *Corporations Act 2001.*

After financial deregulation in the 1980s, the number of financial mutuals declined significantly, as smaller players merged, and larger institutions de-mutualised to become banks. In 2010, the Labor government introduced legislation to allow large financial mutuals to use the term "bank", in order to promote competition in the retail banking sector (Commonwealth of Australia, 2011).

Following the Banking Royal Commission, the Customer Owned Banking Association (COBA) released a *Competition Agenda* outlining four key steps to boost competition in the banking sector with a specific focus on retail customers.

COBA's four-step agenda is to:

1. Empower consumers by raising awareness and reducing barriers to switching;
2. Accommodate the customer owned model;
3. Improve regulator accountability and regulator focus on competition; and
4. Recognise the anti-competitive impact of regulatory compliance costs and ensure regulatory measures are proportionate and targeted. (COBA, 2019).

The creation of *PostBank* has the potential to impinge on this competition agenda and take customers away from the financial mutuals sector. The sector should be engaged constructively to ensure the shared objective of increasing competition in the retail banking sector is not undermined.

Conclusion

The case for public banking is strong, particularly in Australia where the market power of the 'big four' banks results in a lack of competition in the market.

Following the findings of the Banking Royal Commission, which uncovered innumerable examples of malfeasance and profit gouging by officials in the commercial banking sector, the creation of a trusted, publicly-owned bank, backed by government guarantee, is likely to be welcomed by the Australian people.

As we have demonstrated, a new government owned bank has the potential to improve the Australian economy and society by utilising the power of bank money creation, combined with a federal government guarantee, to reinvigorate regional Australia, assist in the transition to a low-carbon economy, and refocus commercial lending to productive business enterprise and away from asset price speculation.

The viability of the business models outlined in this paper, and the feasibility of the phased approach to building *PostBank* which we have proposed, provide assurance that the establishment of a public bank within the Australia Post Government Business Enterprise is both achieveable and relatively low-risk.

As we rebuild our economy and society from the shock of the COVID-19 pandemic and address the urgent challenge of climate change, trusted public institutions, with a mandate to serve public, rather than commercial, interests will be fundamental to restoring the trust of citizens in the foundations of our democratic nation.

The potential of an ambitious, reform-oriented public bank in 21st century Australia is enormous. By taking a bold step to establish such a service within the existing infrastructure and footprint of Australia Post, government could not only underpin the long-term viability of one of our most trusted public institutions, but begin to restore the trust of Australians in our financial and economic system.

The creation of *PostBank* could be a significant milestone in Australian political and economic history. We only need the political will to make it happen.

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