THE McKell Institute VICTORIA

MCKELL INSTITUTE VICTORIA

DELIVERING MORE:

HOW COLLABORATION *with* AUSTRALIA POST CAN BENEFIT VICTORIANS

JANUARY 2018

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FOREWORD

In 2015, when the McKell Institute released our first report into Australia Post, the business was about to record its first financial loss in its modern incarnation. For this 200+ year old organisation, the shockwaves of the Global Financial Crisis were a mere ripple compared to the tsunami of digital disruption that had been building.

Fast forward to 2017 and the national icon has made considerable progress against each of the report's recommendations to transform the business in order to protect the essential services upon which so many communities and businesses depend.

But while the company's financial results are back above water those same disruptive forces continue to build under the surface. And if the Australia Post management team as well as those who oversee it as directors, policymakers and legislators cannot continue transforming the organisation and keep it on the front foot, the next wave that rises in its path could be harder to escape.

That is why this latest research into the company focusses on the one recommendation of the 2015 report where progress has been the slowest – the call to "build synergies with other government departments to provide greater services to our community". It takes a look at the complexities and challenges in achieving collaboration between different government departments, agencies and jurisdictions and provides an economic case for increased collaboration along with a practical roadmap for the Victorian Government to consider.

At the crux of this report, is a need to view Australia Post not just as a provider of essential services but part of our national infrastructure. Where the more we make use of its various physical and digital networks as opposed to replicating them within our own organisations, the more we can improve services and lower prices.

For governments seeking to deliver better services for their communities, it's a case of delivering more, delivering it sooner and delivering for less.

HON STEVE BRACKS AC
CHAIR
MCKELL INSTITUTE VICTORIA

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EXECUTIVE SUMMARY

> Australia Post is perhaps one of the highest profile examples of an organisation facing digital disruption. Few Australians would not be aware of the decline in letter volumes driven by digital communications or the growth in parcel volumes brought about by online shopping.

Fewer still would think of the old-fashioned postal service as an early form of the sharing economy, despite Australia's first Postmaster-General being compensated for operating the service out of his home.

Economists typically view postal monopolies as a mechanism for cross-subsidising services in remote areas out of profits made in the cities. However, history shows the economic logic behind the original reforms toward a uniform rate of postage was about achieving lower costs for everyone and in turn stimulating commercial activity across Britain. By simplifying administration and making it easier to 'share' usage of Royal Mail, and harder not to, economies of scale could be maximised across the distribution network of a single service provider.

While the proclaimed benefits of reform accrued quickly, securing it took a long time with fierce resistance from vested interests in the form of those that received free or subsidised postage or operators of competing, though illegal, postal services. This might explain why in a digital environment, where the fixed costs are even more pronounced, sharing or collaborative approaches are still rare as government agencies and private sector organisations too often opt to build and operate their own digital platforms for interacting with their citizens or customers.

This report seeks to understand how a lack of collaboration leads to higher costs for everyone, through duplicated effort and slower take-up, which from an economy-wide perspective

also means slower productivity growth and innovation. It also leads to increased risk in areas such as cyber-security and identity theft or potential exacerbation of the impacts of the digital divide. It then looks at opportunities for greater collaboration, in particular for areas where the Victorian Government could show leadership through partnering with Australia Post in particular.

Part 1 begins by reviewing the history of postal services, to see what we can learn from past experiences or overseas jurisdictions. It explores the origins of the uniform penny post that became the foundation of most modern postal services around the world and concludes with the various responses to digital disruption.

Part 2 considers the case for greater collaboration and what that might look like across three key areas of opportunity:

○ **DIGITAL COLLABORATION** – set outs the financial case for adopting a multi-channel digital strategy that shares third party channels with other service providers. It explains why this makes sense even if a government agency has already invested in its own channels and why concerns regarding 'cannibalisation' are often misplaced. It also encourages Australia Post to leverage the universal nature of the letter service as a mechanism for increasing collaboration in areas of market failure or poor coordination.

○ **OMNICHANNEL COLLABORATION** – explains how partnering with Australia Post for digital service delivery also opens up new possibilities for delivery services via the post office or at someone's front door. This will not only help mitigate the negative impacts of a growing digital divide but ensure organisations are more likely to capture the benefits of migrating transactions to digital.

○ **CAPACITY COLLABORATION** – makes a case for governments making excess capacity within their networks or infrastructure available for secondary uses. It draws on experience in the postal sector to look at how Victoria's passenger train services could be exploited in non-peak periods to facilitate a low-cost same-day parcels service that improves connectivity across the State.

In Part 3, we explore the flip side to the success of current policy settings and how they might

inhibit institutional collaboration, particularly across different jurisdictions. It looks at the option of allowing Australia Post to negotiate State-Based Service Agreements that could provide greater incentive for state and territory governments to partner with Australia Post and help strengthen its economic viability and sustainability.

While the long-term sustainability of Australia Post's network and services has been at the forefront of our minds in building the case for increased collaboration, we have deliberately focused the case on the positive benefits to the community or the government agency that serves them. However, we believe it is important to view commercial opportunities to strengthen the viability of postal services, particularly in rural and regional areas, as an alternative to facing tougher decisions down the track around either withdrawing access to service for those communities or having to fund them directly out of the budget.

RECOMMENDATIONS

PRIORITY AREA 1:
DIGITAL COLLABORATION

RECOMMENDATION 1
The public sector should help underpin the viability of shared channels for digital services by enabling access to government services on third-party channels on neutral terms vis-a-vis own channels.

RECOMMENDATION 2
The Victorian Government should extend their "digital distribution channel for simple, high volume transactions" to include accessibility via Australia Post and other third parties that are compliant with stringent privacy and cyber-security safeguards.

PRIORITY AREA 2:
OMNICHANNEL COLLABORATION

RECOMMENDATION 3
The Victorian Government should include simple transactions with a physical or manual requirement in its digital distribution strategy with the assistance of third party channels.

RECOMMENDATION 4
Australia Post and the Victorian Government should jointly investigate how omnichannel access to government services via Australia Post could improve outcomes for key segments of the population, in particular supporting older Victorians to remain self-sufficient in their own homes for longer.

PRIORITY AREA 3:
CAPACITY COLLABORATION

RECOMMENDATION 5
Governments should provide leadership in enabling access to latent capacity in its assets for secondary purposes.

RECOMMENDATION 6
The Victorian Government and Australia Post should pilot low-cost same-day parcel services that leverage the metropolitan and regional train networks.

PRIORITY AREA 4:
REWARDING COLLABORATION

RECOMMENDATION 7
The Australian Government should consider a framework for individual states and territories to negotiate price and service agreements with Australia Post to reward jurisdictions for assisting with improving the sustainability of postal services.

RECOMMENDATION 8
In conjunction with implementing the preceding recommendations, the Victorian Government and Australia Post should develop a model agreement for the Australian Government's consideration.

PRIORITY AREA 5:
OVERCOMING
COORDINATION FAILURE

RECOMMENDATION 9
The Australian Government should encourage Australia Post to leverage the universal nature of its letters service where it can help accelerate Australia's digitalisation by overcoming lack of coordination or market failure.

RECOMMENDATION 10
Australia Post should integrate the mail redirection and change of address services into the basic letters service, recouping the costs and foregone revenue via an increase in postage.

* The recommendations were drafted specifically for the Victorian Government in order to make them as practical as possible, but most can be readily adapted by other state and territory governments and even the Commonwealth to their jurisdiction and services.

PART 1:
HISTORY OF POSTAL SERVICES

Australia Post is one of the oldest entities in this country with operations dating back to the first Postmaster-General, Isaac Nichols, who began receiving and storing mail in his Sydney house in 1809.[1]

Fast forward to today, and Australia Post has gone from a one-man posting relying on the latent capacity of his front room to an organisation made up of over 50,000 employees, licensees, and contractors that efficiently connect an entire continent with one of the lowest postage rates in the developed world.[2]

In Victoria, a workforce of more than 11,000[3] support a network of 1,241 post offices,[4] with next day delivery services available across the entire state. Its partnership with Qantas ensures Victorians have the most reliable access to next day services nationally with the dedicated freighter hub operating at Melbourne Airport.

Pre-Federation and the era of postal reform

Before Federation, post was a matter for the colonies, with each operating a separate postal organisation, typically filled by constables or private individuals on an ad hoc basis, and the main method of transportation was by ship.[5] In the 1820s the first overland routes were established between Sydney and Parramatta, Penrith, Liverpool, and Windsor, with post delivered by packhorses and coaches.[6]

In 1828 Australia's first postmen began letter delivery, in 1830 mail began being delivered by coach, and in 1831 Australia's first post boxes were established in Sydney in addition to a twice a day two-penny delivery service throughout Sydney.[7] In a world-first, prepaid stamped letter sheets were introduced in Sydney in 1838, beginning the adoption of a system where the sender rather than the recipient would pay. Also in 1838, a

route connecting Sydney and Melbourne was established via a combination of coach and horseback. On the 1 January 1850 the first stamps were introduced in Sydney, and in May 1852 prepayment was made compulsory, completing the transition to post as we know it today.

Beginning in 1809, organised and regular postal services began supplanting the prior ad hoc arrangements, and in a reflection of the primary method of communication, naval officers were frequently appointed to manage the post. In the following decades, postal services expanded across the continent, encompassing a multitude of delivery methods from hand-delivered letters to trains to river steamers. In the late 1830s to early 1840s uniform rates were adopted across Australia, following the Rowland Hill reforms. Stamps were introduced between 1850 to 1860, and during the 1860s telegraphs began being introduced across Australia under the control of the Postmaster General of each colony. Australia's first postcards were issued in 1875, and with the establishment of a rail link between Melbourne and Sydney in 1880, next day delivery between capital cities was introduced.

A post office was established in Melbourne in 1837, receiving post from the sea. Victoria was quick to innovate, introducing compulsory prepaying as a precursor to stamps in 1852, and establishing Australia's first telegraph between Melbourne and Williamstown in 1854. In 1865 traveling post offices were attached to trains in Victoria, allowing the sortation of mail during the journey, and in 1867 Melbourne's General Post Office was opened to the public.

Rowland Hill & the Uniform Penny Post

In 1837, Rowland (later Sir) Hill published his radical plan for reform of the UK's Post Office in a detailed manifesto.[8] Hill's primary motivation was the importance of letter communication to commerce, and therefore the Crown's reliance on Royal Mail for revenue meant an excessive tax on the country's prosperity.

However, Hill appreciated that reform would be impossible if he attempted to tackle the fourth item, so he instead chose to make the case that taxing postage was undesirable and devised a plan that would have a neutral impact on government revenues.

THIS INVOLVED DEMONSTRATING THAT:

1 The cost of administering distance-based postage charges significantly outweighed the actual costs of transportation (as low 1/36 of a penny on the longest routes).

2 The practice of collecting postage from recipients also imposed significant cost and carried a high incidence of non-payment.

3 Free postage for government bodies and parliamentarians, known as 'free-franking', pushed significant cost on to other users and was exposed to rorting.

So, by imposing the costs of transit on all letters, regardless of the distance travelled, and making pre-payment compulsory, Hill was able to reduce the costs of distribution by around 60 per cent. When combined with the removal of free-franking, this would allow postage rates to be reduced right across the board.

When implemented from 1939, even with a moderated reduction in rates to protect revenue, the predicted results came quickly. In just two years, chargeable letters grew from 72 million per annum to 208 million affording the further reduction in postage to Hill's target of a single penny. This further stimulated growth, and two decades later there were 642 million letters distributed annually. The Money Order System experienced even higher orders of growth, increasing from £313,000 to £16,494,000 over the same period.[9]

Post-Federation and the 20th century post

Following Federation on 1 January 1901, Sir John Forrest was appointed the first Australia-wide Postmaster-General and placed in charge of amalgamating six separate postal and telecommunications departments into the Postmaster General's Department (PMG).

Like other postal services around the world, the PMG continued the tradition of the shared carriage of mail and passengers to either extend postal services into new areas or help underwrite new modes of transportation that offered to improve service and productivity. Australia's first regular domestic AirMail service, the Geraldton-Derby run in Western Australia, commenced in 1921. Regular international services via Qantas and Imperial Airlines cut delivery times to London from 32 days by sea to 13 days.[10]

Transcontinental aviation in the United States of America

The United States Postal Service was an early pioneer of aviation in North America, beginning with a series of experimental flights in the decade to 1921 when it instituted a full airmail service spanning from New York to San Francisco.

To be able to conduct flights both day and night, the USPS led the way in establishing land infrastructure such as radios, beacons and airstrips and equipped planes with luminescent instruments, navigational lights, and parachute flares.[11]

In 1925, the U.S. Congress passed "An Act to encourage commercial aviation and to authorise the Postmaster General to contract for airmail service" which was to be the first of four Acts relating to air mail. This initial piece of legislation that would not only transfer the Post Office's aviation infrastructure to the Department of Commerce but seek to utilise mail volumes to help support a commercial aviation sector. Every subsequent bill would attempt to change the contractual and remuneration arrangements for transporting airmail to encourage the design of planes that could fly longer distances and carry more passengers, and ultimately bring about the separation of airline manufacture from operations in 1934.[12]

Meanwhile, the growing demand for telephony services saw the PMG's focus and resources increasingly skewed towards telecommunications and managing the capital intensive investments they required. This saw the PMG grow at such a magnitude that by the early 1970s:

- It had a workforce of more than 130,000 people (equivalent to 45 per cent of total federal government employment).

- The underlying profit from telecommunication services of $94million in 1974-75 was effectively cross-subsidising the $65million loss in postal services.[13]

- Its annual capital expenditure program grew to $540million, predominantly for expansion and modernisation of the telecommunications network.[14]

Structural separation and statutory independence

In this context, the Whitlam Government built upon the Amalgamated Postal Workers Union's long-term push for statutory independence for the PMG that would free its industrial relations from political interference and included a program of structural separation of the postal and telecommunications divisions. This would bring the additional benefit of having a profitable stand-alone telecommunications business that was better placed to hold down prices and avoid the diversion of capital from an important growth centre for the economy.[15]

These new arrangements not only put Australia Post on a path towards greater financial independence and sustainability but laid the foundations for a more commercial culture and approach to management. The accompanying legislation provided for the new Australian Postal Commission to continue allowing Telecom customers to pay their phone bills at a post office, a critical step in commercialising an internal service into a shared service we know today as Post Billpay.

Microeconomic Reform & Corporatisation

In the microeconomic reforms of the 80s and 90s, Australia Post took the next step along its journey with corporatisation strengthening its operation as a commercial business enterprise. These changes precipitated an increased focus on its retail business, the introduction of Express Post between capital cities and significant investment in automation of letter sortation that underpinned the most stable letter prices across the world, declining in real terms over two decades.

Corporatisation was as much about improving the efficiency and performance of Australia Post as it was about ensuring its competitors had a level-playing field through what became known as competitive neutrality policy under the National Competition Policy Framework. By requiring government businesses to pay both taxes and dividends, based on achieving a commercial rate of return, the approach was designed to ensure they could not unfairly underprice the competition. In Australia Post's case, the Australian Competition & Consumer Commission was assigned to monitor the business to ensure there was no cross-subsidy flowing from its reserved services to the areas of its business that are open to competition.

Global Financial Crisis and digital disruption

The cumulative effect of these reforms was to take an organisation that was producing a loss in 1975 into a positive contributor to the Federal Budget bottom line. Over the decade to June 2013, the company paid $2.4billion in dividends alone to the Federal Government as its shareholder.[16] The new discipline imposed by corporatisation and regulatory oversight meant that even with the emergence of digital communications letter volumes continued to grow right up until the Global Financial Crisis. However, this time when the economy began to recover, letter growth did not recover with it as businesses and governments began to increase their use of online channels to cut costs.

By 2015, Australia Post found itself in the same position as most postal operators around the world as the decline in letter postage continued to accelerate, hitting a level 1.2 billion below their 2008 peak. In turn, this drove a financial loss in the letters business of over $400 million in the three years to 2013.[17] At the same time, parcel volumes were booming thanks to online shopping, keeping the organisation as a whole in the black.

While some observers question if the growth in parcels could simply offset the decline in letters, the issue here is how the two services operate over fundamentally different delivery networks. Allowing a cross-subsidy to operate over a prolonged period would have taken Australia Post back to where it was in the 1970s, only this time it would have been a drag on investment in improved parcels and e-commerce services rather than telecommunications.

In the McKell Institute's 2015 research,[18] we reviewed the options available to ensure the future sustainability of Australia Post. Of the six major recommendations, the Australian Government has progressed the core regulatory matter of modernising the service standards and pricing to suit the digital era. Meanwhile, Australia Post has acted on four recommendations concerning further innovation and diversification, including into digital services,

and building capabilities in e-commerce that support SMEs. However, there has been much less traction in the final recommendation to "build synergies with other government departments to provide greater services to our community."

This recommendation is of critical importance for securing the ongoing sustainability of the post office network. Many of the other actions taken were to stem the losses of the declining letters business or boost the growth of the parcels business, but they do not directly resolve the funding gap for Australia Post's Community Services Obligations, previously catered for via a profitable letters business. Meanwhile as the parcels business, which operates in a competitive market, can't be a reliable source of a cross-subsidy, the need remains to find additional lines of business that directly use the assets we want Australia Post to maintain.

It is with this challenge in mind, the unfinished part of the previous research, that we have sought to identify where to find those synergies and why governments should act on them. In doing so, we lay out how the Victorian Government could play a leading role in collaborating with Australia Post to leveraging their vast physical network of post offices, trucks and posties to deliver more for Victorians and a better result for the state's budget.

PART 2: OPPORTUNITIES TO COLLABORATE WITH AUSTRALIA POST

This section first looks at why greater collaboration between governments and Australia Post is desirable before identifying practical areas on which to focus.

REASON 1: Improving government services and access for all Australians

There is the opportunity to leverage Australia Post's network, its capabilities, and the relationship it has with almost every person and business. This can enable the delivery of services in new and unique ways that improve outcomes and increase accessibility for people that might find it harder to access services via government channels.

REASON 2: Improved availability of shared services to the wider community

Many of the services provided by the government sector rely on the same underlying transactional capabilities as services provided by the private and community sectors. For example, the ability to make or receive a payment, to collect and validate documents, verify someone's identity, or issue a statement or receipt.

One of the major economic and social benefits in collaborating with shared service providers, including Australia Post, is the opportunity to use government transactional volumes to make those same services more economical for other users or to provide access to entire capabilities that might otherwise not be available. This includes digital services or infrastructure that typically have high fixed costs and therefore lower average costs and possibly prices the more volume that moves across them. A practical example of this has been the digitalisation of police checks in Western Australia via Australia Post, which has reduced the user charges by almost $10 per transaction.[19]

The converse is also true. The more government agencies 'go it alone' and, in effect, withhold their transactional demand from shared platforms, the rest of the economy will likely have to pay higher costs; or in some cases, the shared option might not exist. Ironically, Paraguay has long experienced this exact problem in letter delivery itself due to state-owned utility companies delivering their own bills.

REASON 3: Ensuring the sustainability of the Australia Post network

As touched on earlier, greater delivery of government services through Australia Post is likely to be the most efficient way of ensuring the viability of key parts of the postal network, particularly post offices in rural and regional communities.

Although it is the Australian Government that is ultimately accountable for postal services, with both constitutional responsibility and direct ownership of Australia Post itself, the state and territory governments should reasonably be expected to consider the role they can play in helping sustain vital community assets. Further, with broader responsibilities for service delivery, economic development and community safety the states and territories are likely to be faced with responding to the social and economic impacts on communities that suffer a loss of access to services via the post office.

The Universal Postal Union's 2007 assessment of Paraguay's postal sector

"Mail volumes in Paraguay are relatively high but Correo Paraguayo, the incumbent postal operator, delivers only approximately 5 per cent of mail volumes. That is not to say that there are major competitors ruling the market; the postal market is, in fact, dominated by State-owned utility companies that deliver their own mail. It is estimated that the national electricity company delivers 20 per cent of mail volumes, four times the volume of the national postal operator. The same is true of the water and telephone companies, amongst others. But all the companies that deliver their own bills do so for their own benefit only. They do not seek to develop the postal market in any way; rather they do so from historic precedent when their delivery staff also read meters and collected payments. Effectively within the marketplace, there is a big diseconomy of scale with regard to the provision of last mile services.

A major issue with the development of the postal sector is, therefore, the development of other state-owned utilities. Until those companies become more commercially focused and concentrate on core activities, they are unlikely to seek to outsource their last-mile services, be they bill delivery, meter reading or bill payment. But without the mail volumes from the public utilities, the development of Correo Paraguayo into a viable business is unlikely."[20]

PRIORITY AREA 1: DIGITAL COLLABORATION

We have identified digital collaboration as the priority because it is the area of greatest potential short-term impact and also the area where collaboration is at its weakest. While there's been a considerable improvement when it comes to whole-of-government collaboration within individual jurisdictions (e.g. the establishment of the Commonwealth's Digital Transformation Agency and Services NSW or Service Victoria at a state level), there's still considerable scope for improvement when it comes to collaboration across jurisdictions or with the broader economy.

The concern is that with multiple governments and private sector organisations simultaneously pursuing digitalisation in isolation to one another, they not only present a weaker consumer value proposition that inhibits adoption, they also compete for the same scarce resources to work on the same sets of problems. Moreover, this all occurs without sharing the benefits that would come from a common platform. In effect, they are developing the same diseconomies of scale in the digital last mile that Paraguay created in the physical last mile.

It is not just the upsides that are limited by this fragmentation, but it is also compounding the cyber-security risks which Prime Minister Turnbull recently declared the "new frontier of warfare and espionage ... [posing] many threats to Australian families, to governments, to businesses".[21] With every service provider that seeks to 'own the customer' with a log-in username and password, our personal information, including identity, is only as secure as the weakest of the service provider that we use. We, therefore, need to pro-actively address this 'digital' Maginot line and reduce the number of fronts that we are fighting this war on.

What is digital collaboration?

For the purpose of this report, we define digital collaboration as adopting a shared approach to the digital provision of services that allows multiple service providers to pool costs and share in the benefits of innovation or enhancements on a common platform.

To simplify things, we focus specifically on the digital last mile – the digital interaction with customer or citizen – with collaboration occurring when a service provider allows its customers to transact with it via a third party's website, platform or channel.

MULTI-CHANNEL ONLINE RETAILING

In the world of online shopping, multi-channel retailing is where the retailer not only allows customers to purchase its product via a third-party but they pay service fees for the benefit and therefore enjoy a lower margin on that particular transaction than if it had occurred on their own website.

Rather than worrying about cannibalisation, retailers such as Myer - which sells on eBay - are embracing it. They acknowledge that it gives them access to customers that they might otherwise not acquire. From a financial perspective, a retailer selling clothing on eBay with a gross margin of 50 per cent can afford cannibalisation of their own-store sales of up to 80 per cent before the increased charges begin to outweigh the additional revenue.[22]

The marketplace typically wears the cost acquiring customers, and unlike with advertising and other marketing activities, the retailer only makes an indirect contribution via the service charges when they make a sale, which offers positive cash-flow benefits.

For consumers, the attractions include access to a consistent marketplace experience regardless of which retailer they are purchasing from along with the ability to avoid creating yet another online account and password to remember.

Although some marketplaces sacrifice part of their commission to offer discounts and promotions to attract sales, the retailers themselves typically retain control over pricing, product information, and stock levels, which they increasingly manage from a unified backend system that integrates with multiple marketplaces and their own online store.

AUSTRALIAN TAX OFFICE

The Australian Tax Office (ATO) is an early pioneer of multi-channel service delivery via its Electronic Lodgement Service (ELS). Although the ELS is in the process of being phased out and replaced by the Practitioner Lodgement System, that leverages more contemporary methods of data exchange, the underlying separation of back-end ATO systems from the front-end business facing interface will be preserved.

The benefit to the ATO is that the cost of developing and maintaining front-end software are passed onto the businesses rather than being funded out of the ATO's ICT budget. The resources and effort that go into these systems are managed by a competitive market with greater pressure to innovate and improve their software to retain customers, and that often operate across multiple countries enabling increased economies of scale.

The ATO benefits further from these third party channels as software enhancements designed to create new value for the business user, can also be leveraged by the ATO itself. For example, the migration to real-time cloud-based services could open up new ways for government to interact with business that wouldn't be possible with earlier software.

Not only does this allow the ATO's management team to focus its effort and resources on maintaining and developing its back-end systems, but its overall eco-system is less vulnerable. When the core ATO systems went down in December 2016, the impacts on the economy were largely limited to interactions with the ATO.[23] Tax professionals and businesses were otherwise able to continue to operate on their front-end systems since they are independent. So while a backlog of work to be submitted to the ATO would have accumulated, there would not have been a complete loss of productivity that would have occurred if there was a single integrated system.

The business case for multi-channel service provision

When it comes to government service provision to citizens and households, as opposed to businesses with the ATO, not only are digital channels less mature but collaboration and use of multi-channel arrangements are rarer. Most government agencies, like their private sector counterparts, have preferred to 'own' the customer or at the very least the digital last mile and had an aversion to paying transaction fees to an external party for something they can get for 'free'.

However, the internal business case for governments going multi-channel, that is excluding the spillover benefits that accrue to the wider economy, works the same as for retailers that sell products via own channels and via third party marketplaces. The important thing is to avoid looking at third party fees in isolation and to consider them instead relative to the gross margins of a retail sale or, for government services

it is the cost reduction achieved from migrating away from higher cost channels such as face-to-face or paper-based.

Take the Australian Government's myGov service, one of the key tools in the Commonwealth's Digital Transformation Agenda, as an example. In July 2016, the 14 million transactions processed via myGov reportedly saved the Government $180 million in processing costs, on average $12.86 per transaction.[24] If the Government were to offer third-party channels a $1 payment for every transaction they generated, they would still save $11.86 on average.

When it comes to the issue of cannibalisation, they could afford a substitution rate as high as 92 per cent before it had a negative financial impact. That is to say that for every 100 transactions that would have occurred on the myGov platform, but shift across to third-party channels, only eight entirely new transactions would be needed to offset the financial costs of cannibalisation.

FIGURE 1: Maximum rate of substitution for MyGov services to 3rd Party channel based on nominal transaction fees[25]
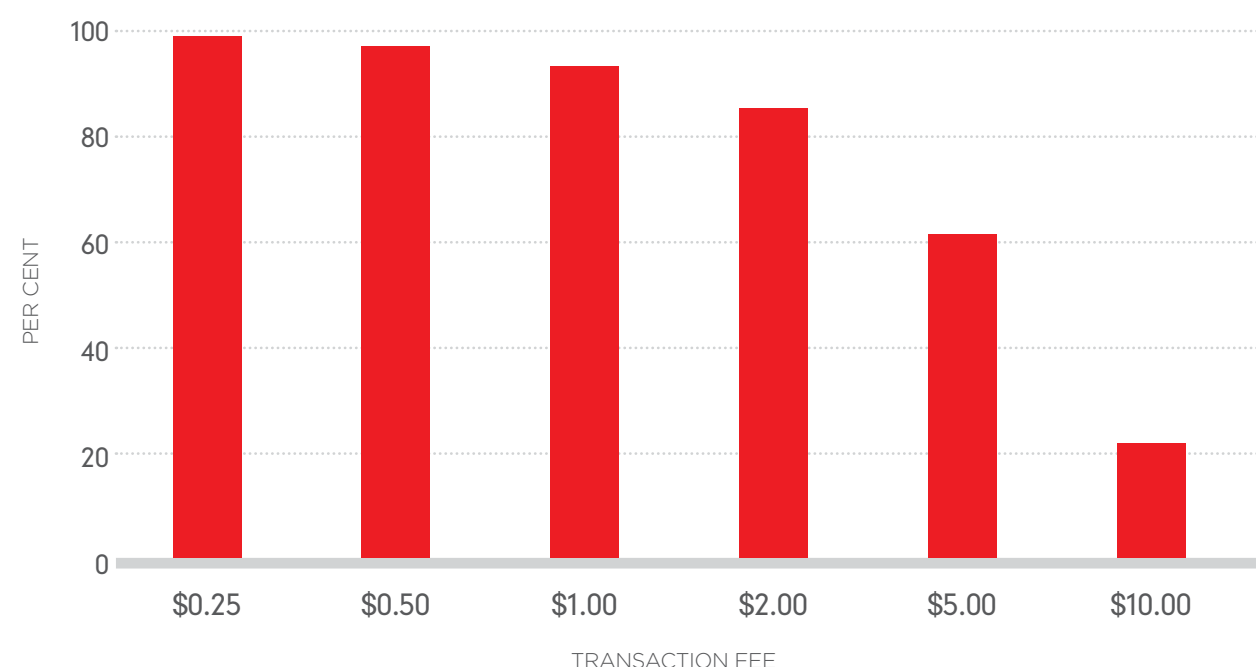
Electronic Medicare claiming and payments innovation

When electronic claiming for Medicare was first introduced, take-up by health consumers was slow and the efficiencies achieved were well short of their target.

One design problem with the solution was that it required individuals to provide their Bank BSB and Account number, something few people remembered or carried around with them.

The Australian Government's solution to this was to enable the claim to take place via the Bank's EFTPOS network instead of over Medicare's own system, as this could be done with an EFTPOS card which people do typically carry around with them.

However, a design problem in the new approach quickly emerged – medical practice staff had to double-enter all the information as their practice management software, and EFTPOS devices were not integrated. This extra work made it unpopular with practices and adoption failed to lift.

Fortunately, because of the transaction fee available to financial institutions for each claim that passed through their channel, a solution was under development, and the Australian Government did not need to lift a finger to make it happen.

Tyro, a new payments startup, spotted this as their opportunity to get a foothold in the market and moved quickly to partner with a major software provider to provide an integrated solution. The two partners bore the development costs; all the Government had to do was not cancel the program based on underperformance to date.

When the integrated solution hit the market, the results were swift, with practices that implemented the solution contributing an average 27% increase in electronic claiming within two months.[26]

Multi-channel strategies stimulate new transactions

The success of multi-channel strategies is in large part due to the heterogenous nature of consumer populations. From a technological perspective alone, there is significant diversity once you take into account how people access communications (e.g. do they own a smartphone or have fixed line broadband), the software platforms they rely upon (e.g. Android vs iOS vs Windows) and the applications they use (e.g. use of electronic banking or social media). All of these add to the complexity of technical solutions that are required to create a digital last mile with individual citizens.

A multi-channel approach overcomes this complexity by enlisting the efforts of external parties and their knowledge of their customers to develop tailored, preferably integrated, solutions for segmenting the population. Better still, it can allow the service provider to access pre-existing customer relationships, which is what provides the greatest opportunity to accelerate take-up.

In the practice management software world, where there has typically been in excess of 100 software vendors, payments start-up Tyro provides an example of this in action. The transaction fees under Medicare Easyclaim not only motivated them to connect a digital last mile with patients that visit a large segment of medical practices but it unwittingly stimulated innovation and competition in the Australian payments market.

Multi-channel strategies stimulate faster take-up

It is not just the potential for new transactions but accelerated take-up that makes a multi-channel approach worthwhile.

In project execution terms, a service provider wedded exclusively to their own channels must either prioritise solutions for particular customer segments, effectively deferring take-up from de-prioritised segments, or increase the upfront investment to develop more solutions simultaneously. A simple example of this is whether to build an iOS or Android app first or hire a larger team of developers and build both at the same time. With third-party channels enabled, multiple segments and solutions can be progressed in parallel without the upfront cost to the government. Moreover, by opening the opportunity up to competition, it can create a race amongst third-parties to secure the customer relationship.

FIGURE 2.1
Impact of multi-channel strategy achieving target 6-months earlier[27]

Base-case take-up (% of target)
Accelerated take-up (% of target)
Cumulative benefit (% additional to base-case)
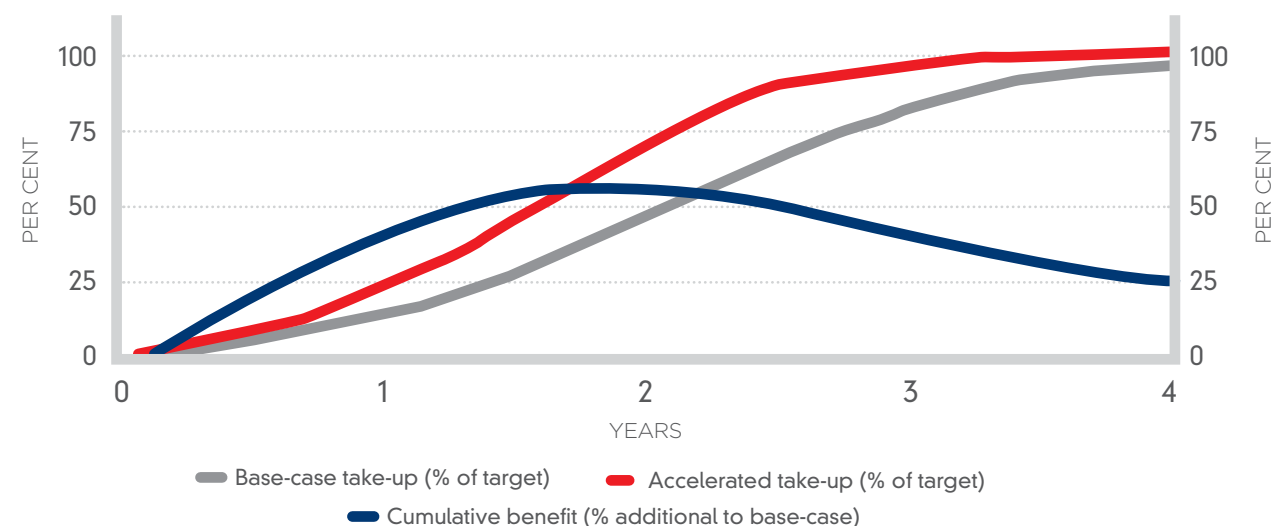
FIGURE 2.2
Impact of multi-channel strategy achieving target 6-months earlier and boosting take-up a further 10%

Base-case take-up (% of target)
Accelerated take-up (% of target)
Cumulative benefit (% additional to base-case)
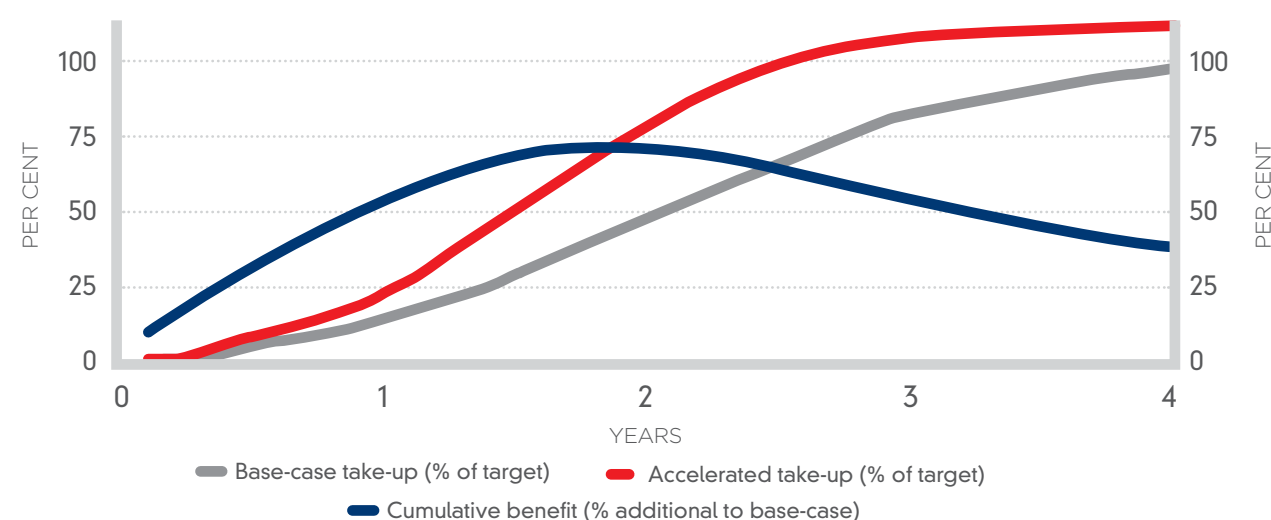
Everett Rogers' work on *Diffusion of Innovations* can be used to estimate the potential value of accelerated take-up. If a multi-channel strategy enables the government to achieve a four-year target six months earlier, this will boost the return over that period by up to 25 per cent. If the level of digitalisation can be boosted by just 10 per cent on top of that, then the pay-off over the four-year period could be increased by a total of 38 per cent.

Not only does this mean governments can access increased savings sooner, it can enable to the cycle of innovation to be accelerated.

RECOMMENDATION 1
The public sector should underpin the viability of shared channels for digital services by enabling access to government services on third-party channels on neutral terms vis-a-vis own channels.

Tapping into the economies of scale of a shared digital last mile seems unlikely to happen without some change in government policy. However, while it is important to avoid replicating Paraguay's postal sector in the online environment, it is also desirable to avoid placing our digital future in the hands of any new monopoly.

That is why we are recommending governments show leadership in adopting a multi-channel approach where they can continue to extract benefits from own channels while making their demand available to stimulate investment in shared platforms that can benefit the broader economy.

Just as governments should make sure that any arrangements do not provide an unfair advantage to Australia Post, they should also ensure they do not provide preferential treatment to their in-house channels if the benefits of competition and sharing are to be maximised. In time this might even extend to transparently costing the true price of the in-house channel and making it reliant on the

same transaction fees as third parties. In the short-term, it would reduce financial risk by assuming the government's channels are indeed 'free' and set transaction fees based on the financial return and behaviour government wants to encourage (e.g. accelerate take-up or stimulate an eco-system).

RECOMMENDATION 2
The Victorian Government should extend its "digital distribution channel for simple, high volume transactions" to include accessibility via third parties that are compliant with stringent privacy and cyber-security safeguards.

For the Victorian Government, the simplest place to start is to incorporate a multi-channel approach into its *Information Technology Strategy*,[28] specifically action item 11 to develop a one-stop shop for government services that includes a digital distribution channel for simple, high volume transactions. By making these same transactions accessible via third-party online channels, the Victorian Government can strengthen its digital agenda with the above benefits of accelerated take-up and reduced execution risk.

By objectively defining the transaction requirements, third-parties can develop solutions that might appeal to their customer base. For example, if one of those transactions is vehicle registration renewal, Australia Post might choose to integrate all the necessary steps in its MyPost service.

PRIORITY AREA 2: OMNI-CHANNEL COLLABORATION

One of the major advantages of collaborating with Australia Post is the ability to leverage its vast physical network. Its delivery network reaches 11.5 million households almost every single day,[29] and it operates a total of 4,392 post offices across Australia,[30] including 2,500 in rural and remote regions.

These capabilities and reach provide unique opportunities to improve access to services and deliver them more efficiently. Perhaps more important, is their potential to unleash innovation just like has occurred with online shopping over the last decade or so (which not only relied on the internet but also a low cost, universal parcel delivery service).

Supporting online services first

In the first instance, it is worth noting how Australia Post's physical network can complement a shift towards delivering services digitally online.

As take-up of online services increases, demand in current government service centres will shrink, making the cost of each face-to-face transaction rise. A government that delivers services exclusively in-house would face a choice of wearing this higher cost and not realising any financial benefit from digitalisation or reducing its footprint and access to services along with it. The latter, of course, would only exacerbate the digital divide, harming those that need access to government services the most.

Partnering with Australia Post on digitalisation, as recommended in the previous sections, would have the added option of exposing those same services through Australia Post's post offices and delivery network on a variable-cost basis. This would allow governments to expand physical access, even to a citizen's front-door, at the same time as consolidating parts of its network.

Online self-service vs. omni-channel digitalisation

When online shopping began upending the retail sector, it wasn't uncommon to hear predictions of the death of bricks & mortar stores. Moreover, while many former giants of retail have given way to newcomers, most notably Borders' collapse at the hands of Amazon, not only have most traditional retailers overcome their fear of cannibalising store sales and embraced online selling, but many dot-com retailers have begun opening stores, including Amazon itself. Pure-play has given way to omni-channel, where retailers seek to give consumers a consistent experience whether they shop online or in-store.

The successful omni-channel retailer understands that an online store is in and of itself little more than a self-service option and that genuine digitalisation is about tying all the end-to-end processes together to provide visibility over their supply chain and processes as well as the capability for data analytics. In turn, these can be used to drive innovation in areas such as inventory management or customer support that reduce waste and improve service. On the other hand, the downsides of poor omni-channel implementation take the form of frustrated customers that remain unknown to the retailer and lost to the competition.

Although government service providers may not have to worry about losing customers to non-existent competitors, the frustrated citizen or business will often re-appear in higher cost channels or, worse, fail to access the service at all, undermining the policy or program itself. Similarly, just because a citizen can not complete parts of a transaction on their smartphone or screen does not mean there isn't the opportunity to digitalise end-to-end processes and achieve outcomes such as reduction in processing time or increased transparency to help guide policy-making.

RECOMMENDATION 3

the Victorian Government should include simple transactions with a physical or manual requirement in its digital distribution strategy with the assistance of third party channels.

A first practical step for the Victorian Government to take towards a comprehensive omni-channel experience is to include amongst its transactions for digitalisation some that are also simple but have an unavoidable manual or physical component. This could be a process such as a visual identity check, document validation or a current photograph.

The revamped application process for a Tax File Number is a great example of this, whereby it was not possible to move the entire process online due to the need to verify primary identity documents. However, by working with Australia Post, the ATO was able to develop a solution whereby other than the identity check, the entire process can be completed online, removing unnecessary manual processing and associated risks, as well as helping to improve processing times.

Unlocking the full potential of Australia Post's network

While digitalising existing services and processes can offer significant gains, the real opportunity is in the ability to reinvent existing services or create entirely new ones. Moreover, while there's a lot that can be achieved with consumers and their own devices, a digitalised postal network offers unique potential regarding functionality, cost, and universality. For instance, imagine a person with a mobility impairment that has applied for a Tax File Number but can't easily get to a post office. They may instead have the option of having their documents and identity verified by the postie at their home.

Of course, it will take time to access fully the feasibility of larger changes, both from a workforce and technical point-of-view as well as to properly understand the economics. However, if we do not at least start imagining the potential now, then the opportunity may

pass us by. This is because Australia Post will be under continual pressure to adapt its business in response to the structural decline in letters and post office services. As a result what might be cost effective but not technically feasible now could well be cost-prohibitive by the time it is technically feasible.

RECOMMENDATION 4

Australia Post and the Victorian Government should jointly investigate how omni-channel access to government services via Australia Post could improve outcomes for targeted segments of the population, in particular supporting older Victorians to remain self-sufficient in their own homes for longer.

Australia is moving swiftly towards major demographic change in the form of an increasingly ageing population. Since 1968, the over-65 population has more than tripled to approximately 15 per cent of the total population and is projected to increase to 22 per cent by 2061.[31] This brings with it new challenges around health services and funding for federal and state governments.

FIGURE 3: Persons over 65[32]
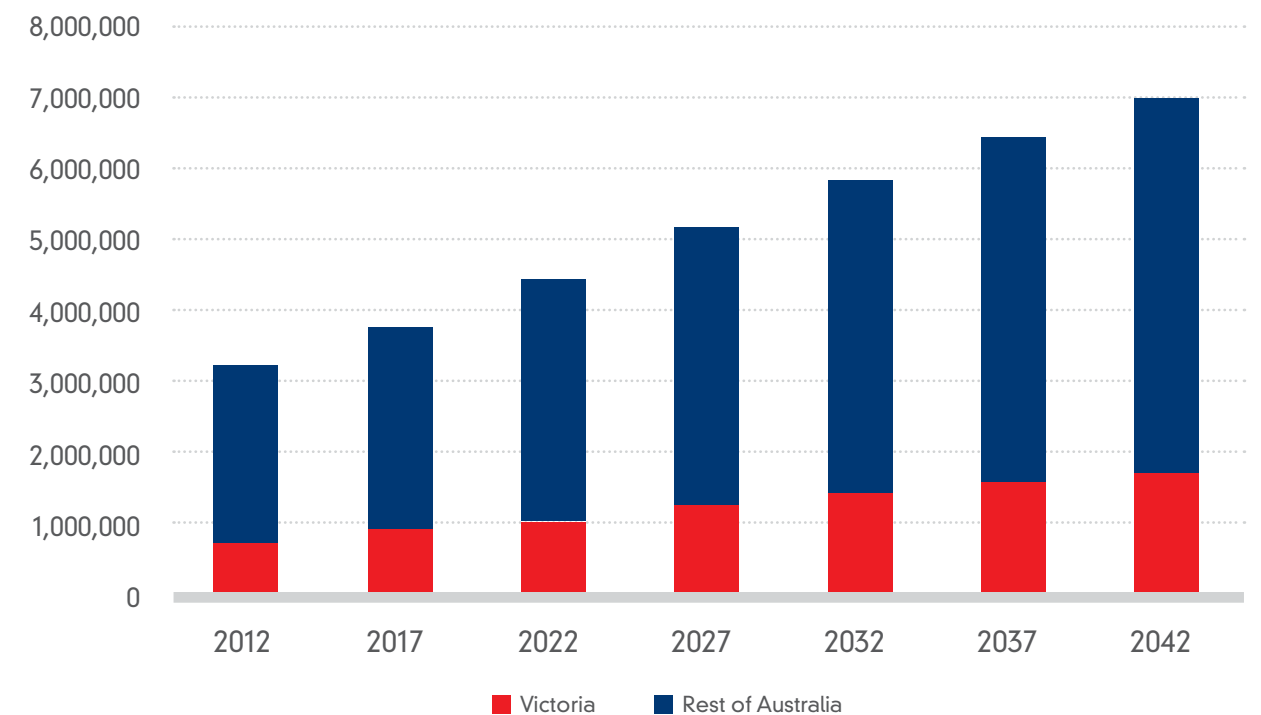
It is in the interests of both senior Australians and the health system that older Australians be able to stay in their own homes for as long as possible. Generally speaking, older Australians strongly prefer to stay at home in a familiar environment close to familiar faces and to retain their independence while supported by community care. It is cheaper for the state, with home care costing approximately one-quarter of the total $15.8 billion allocated annually for aged care, while residential care makes up two-thirds. Per person, this amounts to $30,000 a year for a resident and only $10,000 for a senior still living in their own home. There are currently 900,000 aged Australians receiving at-home care and 275,000 in care facilities.[33]

Online shopping, once again, is already playing a role in opening up opportunities for older Australians to retain their independence particularly as their modes of transportation or physical abilities become more limited.

Australia has already experimented with the provision of health services through postal channels, with great success. For example, under the National Bowel Cancer Screening Program, Australia Post home delivers free testing kits to all Australians at regular intervals between the ages of 50 to 74, and the same kits are then returned via the post. Meanwhile, the Melbourne Sexual Health Centre offers free STI testing kits for select demographics anonymously through the post.

What's missing is a coordinated strategy between government and our universal postal service, to improve quality of life for older Australians and reduce pressure on government budgets by ensuring this cohort are a priority for digitalisation. We need to build on our good early starts as well as learn from what's happening overseas.

International examples of postal services supporting their older citizens

France's *La Poste* has integrated a silver service called comprised of friendly personal visits to the homes of older French citisens. Visiting postal workers are deeply valued as "elderly people's favourite character," according to Jack Azoulay, director of postal workers.[34]

This puts the group in an advantageous position in the silver economy. 'Cohésio' silver service is developing as part of a range of local services that includes home-delivery of groceries and medicine, and remote assistance.

More recently, the elderly have been given the possibility of asking their local postal worker to help them install electronic equipment.

Belgium's BPost has also initiated a similar service called *'bclose'* commissioned by the local social aid and welfare department. Postal workers collect information on a group of elderly citizens identified by the department to assess their levels of isolation and risk, in order to better meet their needs.[35][36]

PRIORITY AREA 3:
CAPACITY COLLABORATION

The opportunities for collaboration come not just from government leveraging external services or platforms. Governments can also unlock value and new service models by enabling external parties to access latent capacity in some of the assets under its ownership or control. Indeed, with the right commercial arrangements, this can help foster innovation and improve asset utilisation, potentially lowering costs for existing and new uses alike.

The South Australian Government is demonstrating leadership in this area with its *Share: A Collaborative Economy Challenge*. Under this program, the SA Government has sought proposals from the public to utilise latent capacity in Government resources to deliver greater public value. As an example of what they are open to considering, the SA Government asks whether Government-owned vehicles could be managed differently to reduce transport disadvantage and lower carbon emissions.[37] [38]

RECOMMENDATION 5
Governments should provide leadership in enabling access to latent capacity in its assets for secondary purposes.

We believe governments at all levels should be adopting this kind of approach. Not just for the reasons already mentioned, but also because governments have a leadership responsibility to model the sorts of collaboration that we want to see more broadly within our society and economy.

This is likely to be particularly crucial if we are to see this era of collaborative consumption and the sharing economy drive improvements in household incomes and workplace safety and productivity in a sustainable and fair manner. While many of the new business models that are emerging can bring real benefits for consumers, the 'supplier' experience can be more mixed. Unfortunately, this does not simply mean increased competition and reduction in economic rents, but we also see an increase in the insecurity of work and unpredictability of earnings amongst some of the lowest paid in our community.

From a wider perspective, there is also the risk that improvements in asset utilisation that flow from households sweating their assets further (i.e. their cars and spare rooms) eventuate as a 'one-off' boost to the economy but manage to displace business models that have a greater capacity to accumulate scale as well as manage both assets and labour more efficiently.

By leading the way in exploring how technology can allow capacity to be shared and utilised better at an institutional level, rather than just household, governments can help steer the next wave of innovation towards business models that overcome these shortcomings.

Innovating in freight

One asset or service that has a regular pattern of underutilisation and which therefore lends itself to new uses is the public transport system; the passenger train network in particular, which operates on dedicated tracks, unlike buses or trams which share the same roads as private motor vehicles and commercial operators.
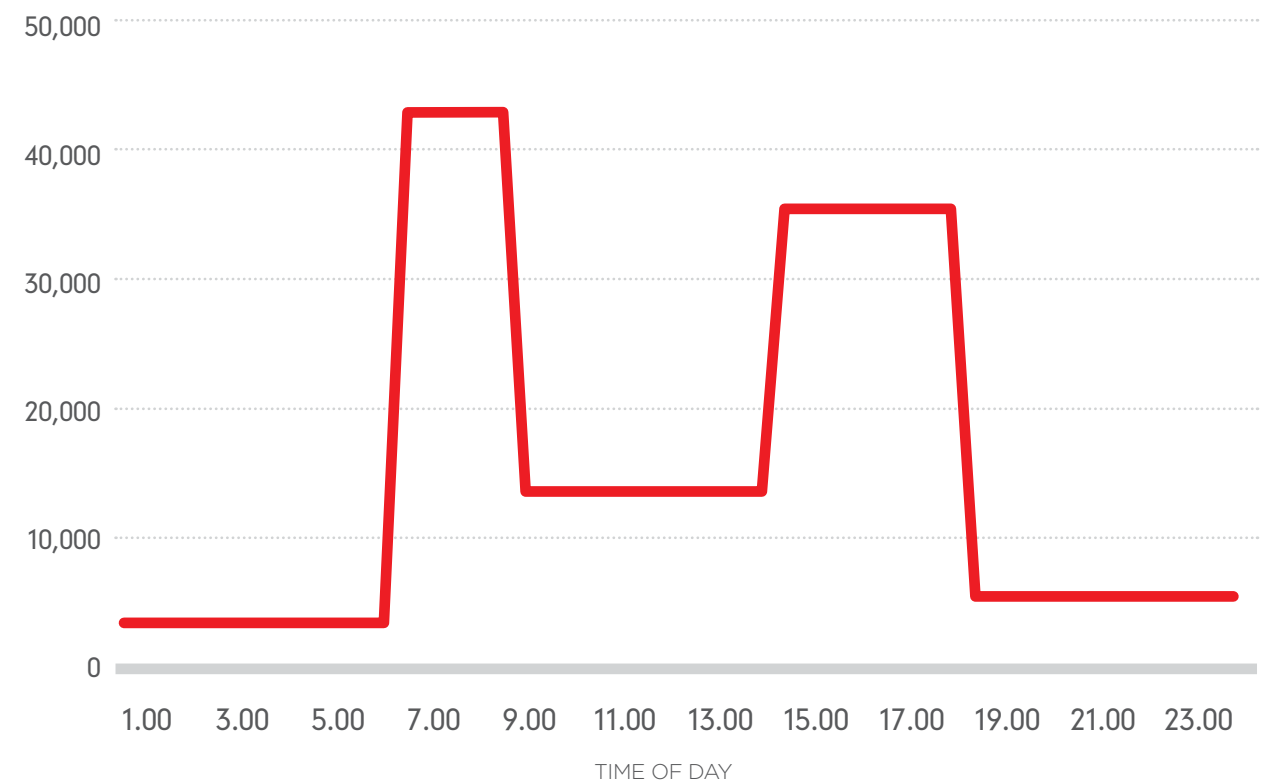
Of course, the peak usage of the train network is driven by the need to move a large number of people in and out of the CBD each day and there just simply isn't a requirement to move nearly as many people in between those peak times.

There is, however, a significant requirement to move goods during those hours, with eCommerce driving demand for increased express and same-day services for small parcels and on-demand supply-chains. The existing connectivity provided by passenger train services as well as Victoria's radial network could support these developments in ways that dominant freight models cannot. Opening up the passenger train network in the right way could also provide a powerful example of Infrastructure Victoria's message that "changing the way existing infrastructure is operated can have much greater impact than building new things."[40]

Existing freight models

The potential for passenger train services to compliment express freight is easiest to understand in the context of the strengths and weaknesses of existing models for moving freight around our cities and our nation. At a high-level, there are two main models for moving small parcel freight – point-to-point versus hub-and-spoke networks – and essentially the strengths of one model mirror the weaknesses of the other. So, where point-to-point can provide the most direct and fastest possible service, it is typically the most expensive as there is little opportunity to consolidate multiple consignments so that drivers can carry more than one delivery at a time. Hub-and-spoke networks provide greater opportunity for consolidation, and therefore fuller trucks and vans, but it can take a longer time, usually overnight, for most express operators.

When it comes to introducing same-day services, hub-and-spoke networks can be prohibitively expensive if the delivery requirement does not align with existing processing cycles. For an overnight operator, it would essentially require duplication of existing shifts and transport links. If volumes are high enough to justify the duplication, then a competitive price could be offered, but if volumes are too low, then it will end up being substantially more expensive than a point-to-point offering.

Now Amazon, one of the major forces behind the push for same-day fulfillment and deliveries has found a way around this by effectively making its warehouses act as a de facto consolidation hub. This only works where Amazon has already amassed such significant volumes in a local delivery area to restructure its operations without compromising density and scale.[41] With Amazon announcing its plans to establish local operations in Australia, businesses that either aren't prepared to fulfil with Amazon or can't amass similar volumes to replicate this strategy may find themselves with uncompetitive service levels.

FIGURE 5: Comparison of Point-to-Point and Hub-and-Spoke Networks

POINT-TO-POINT

HUB-AND-SPOKE

EXAMPLES
Courier

Taxis

Ride-sharing

EXAMPLES
Postal Network

Express Operators

Melbourne Metro

STRENGTHS
✔ Fastest Option

✔ No single point of failure

STRENGTHS
✔ Consolidation enables scale and lower costs

✔ Growth less likely to increase congestion

✔ More scalable and able to handle surge in demand

WEAKNESSES
✘ High cost

✘ Limited opportunity to consolidate

✘ Growth can increase congestion

✘ Difficult to add capacity or handle surge in demand

WEAKNESSES
✘ Slower service

✘ Central hub can create single point of failure
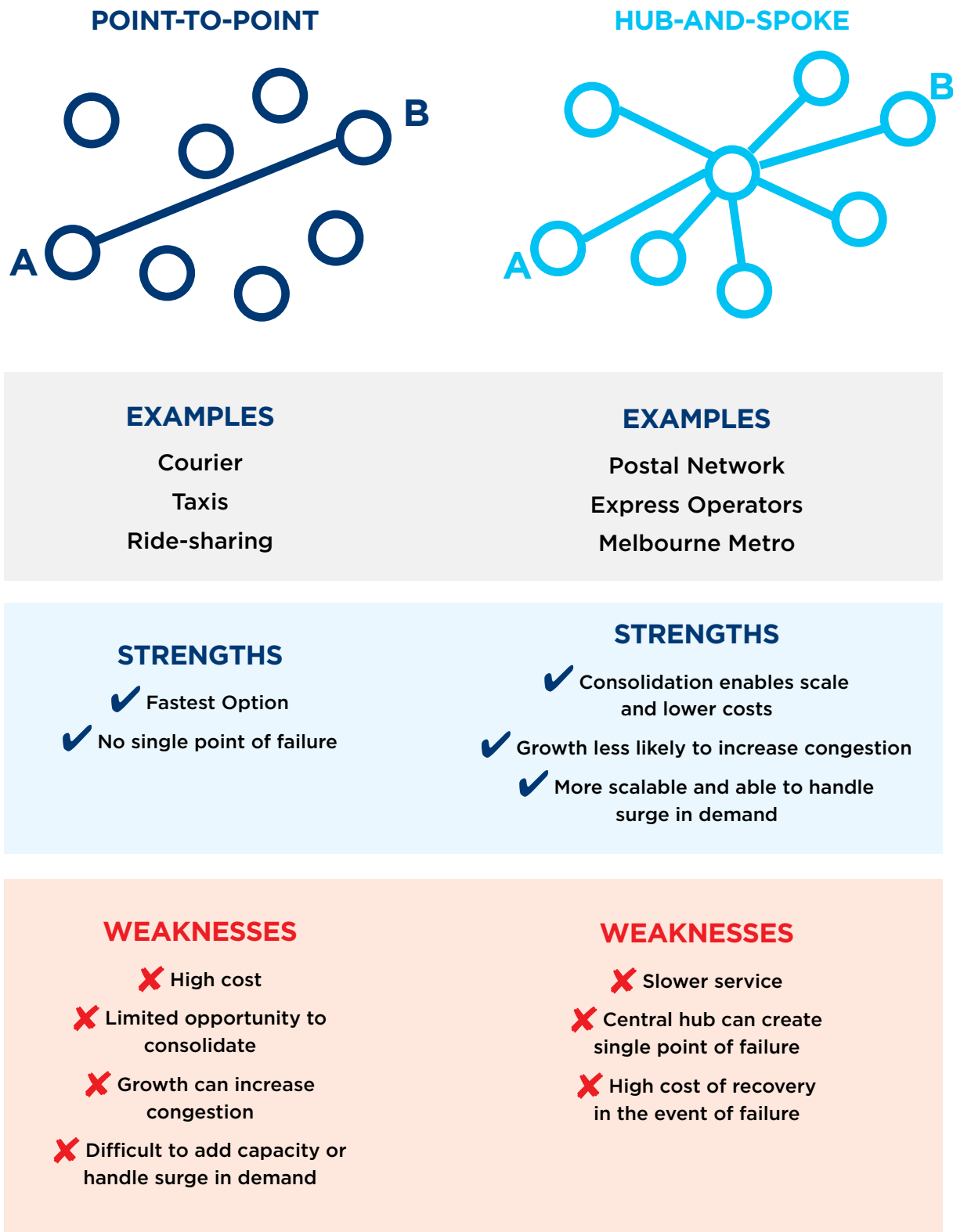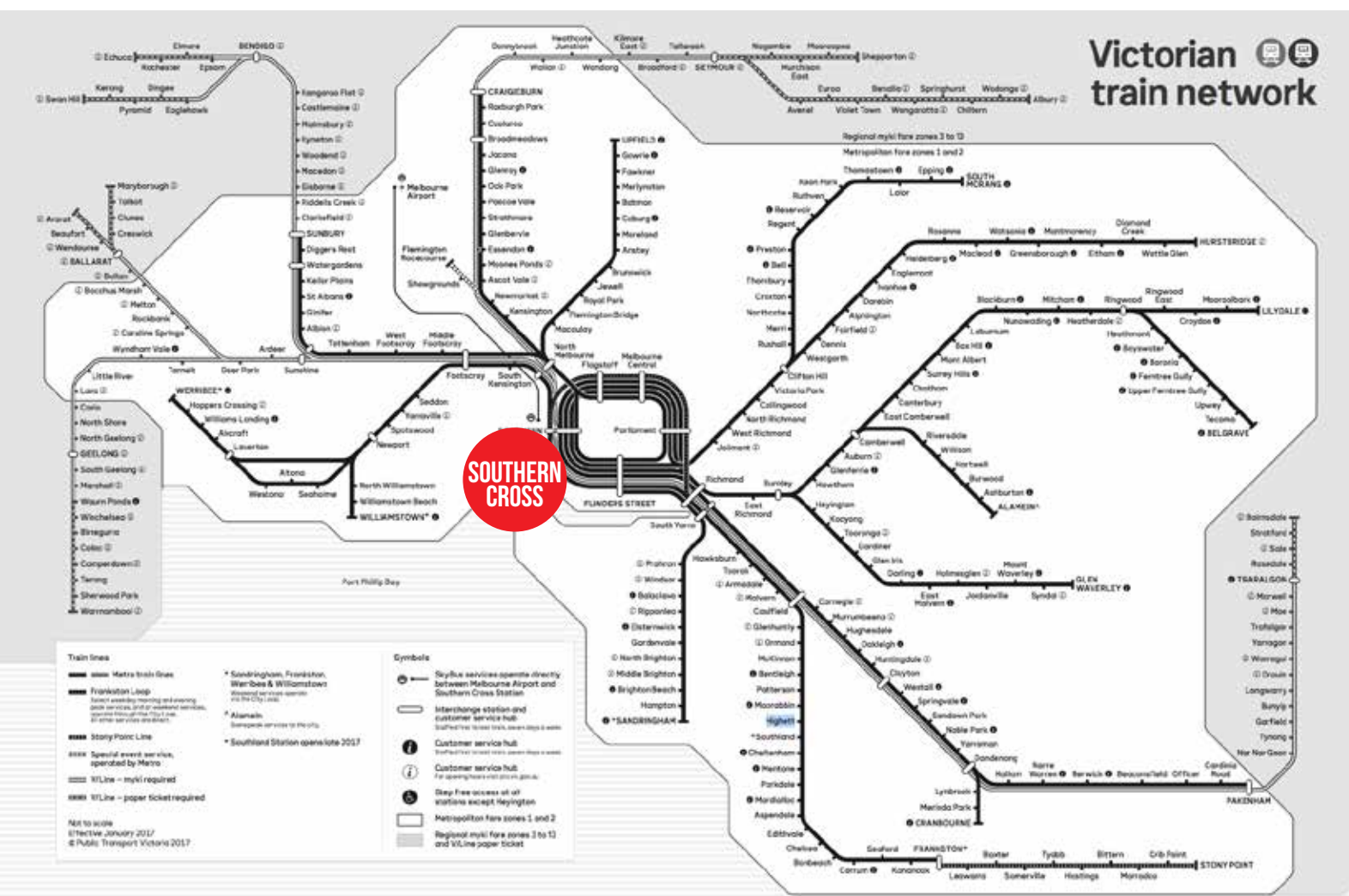
✘ High cost of recovery in the event of failure

FIGURE 6: Southern Cross Station is the natural hub of Victoria's metropolitan & regional train network

Victorian train network

A city's public transport network offers an alternative way of delivering a low-cost same day freight services, particularly when it has a radial structure like Melbourne's train network, where Southern Cross Station sits as a hub for both metropolitan and regional services, that feed in and out of the city centre. Freight operators could use these existing scheduled services instead of establishing their own cross-city transport links, avoiding one of the major inhibitors to establishing a new processing cycle within a hub-and-spoke network, while at the same time creating the opportunity for consolidation that doesn't exist within point-to-point. Furthermore, the regularity of train services would be highly complementary to trends towards waveless order fulfillment by online sellers seeking to compete with Amazon.[42]

FIGURE 7: Equivalent capacity of a six carriage X'Trapolis 100[43]

CARDBOARD BOX X 11,859

SMALL VAN X 32.8

LARGE VAN X 21.3

4.5 TONNE TRUCK X 8.1

SHIPPING CONTAINER X 4.4

BOEING 737 BELLY SPACE X 5.1

Indeed, based on the metropolitan timetable alone, 258 services could be used to move freight into the city between the hours of 10am and 3pm, and these services have an average passenger density of 1.4 people/m² compared to 2.6 people/m² in the morning peak. Overall capacity on these services is up to 263,160m³, the equivalent of more than 50,000 delivery vans or 15,000 3.5-tonne trucks crossing the city with a full load of parcels (something a point-to-point courier would rarely achieve). Of course, this includes space taken up by seats, so if we instead assumed only 5 per cent of this could be made available for freight, that would still be enough room to move up to 1.9 million parcels across the metropolitan area every day.[44]

The major challenge in effectively utilising this spare capacity is figuring out how to do so without negatively impacting passenger services. As the Federal Government's 2011 *High Speed Rail Study* noted: "Australia's rail network has the potential to play a much larger role in the movement of freight if solutions can be found to the challenges of mixed passenger and freight operations in metropolitan areas and key inter-city routes."[45] To a large extent, these challenges relate to the dual operation of separate freight and passenger services on the same set of tracks, where longer, slower freight trains impede the movement of shorter, necessarily faster passenger trains. Carrying small parcels on passenger trains themselves eliminates this problem. The operational challenge becomes, therefore, one of ensuring the loading and unloading of parcels does not hinder the movement or compromise the safety of passengers and staff.

Fortunately, the commercial aviation industry faces many of these same challenges, where they manage to carry relatively lower valued freight without compromising the much higher-valued passenger services. Implementation of freight services on passenger trains should therefore seek to learn from what works in aviation, such as the following key design principles:

1. Timetables should be set to meet passenger demand. Passenger revenues will considerably outweigh potential revenues from freight, so if the inclusion of freight is to boost the overall viability of the network as a whole, then it is fundamental the convenience and competitiveness of the passenger service is not compromised.

2. Operations should be designed to minimise load/unload times rather than maximise freight carried on an individual service. This is to ensure minimal disruption to the service via increased dwell times at stations. Freight should be containerised in wheeled trolleys or bags to facilitate fast and safe transfers. Scanned containers will assist station staff to prepare for approaching trains.

3. The operator should offer a wholesale service only, with first and last mile services left to existing freight providers. Not only will this minimise unfair competition on existing freight providers, but by promoting competitive access, it will ensure the capacity is utilised more quickly than if a new, standalone retail business was established in competition with existing providers.

4. Commercial arrangements should be aligned to operational principles. This means rates should be set on a cubic weight rather than just a dead weight basis and should encourage presentation of freight in a manner that supports smooth movement through the train network. At a future point, this might even include the use of standardised carton sizes for individual pieces of freight.

As the service matures, it is possible that dedicated rolling-stock and station infrastructure may be required to maximise both throughput and capacity. However, in the short-term, it makes sense to pursue implementation options with minimal capital investment while testing demand and operational feasibility. Potential implementation models should be designed in consultation with both the workforce as well as shippers and their end-customers to ensure a workable model is developed that delivers real value and addresses key risks and limitations.

RECOMMENDATION 6

The Victorian Government and Australia Post should pilot low-cost same-day parcel services that leverage the metropolitan and regional train networks.

Although multiple small parcel operators could leverage a cross-town transport network, conducting a series of pilots or proofs of concept could be effective in determining the right commercial model and operations for an ongoing service. Australia Post is a well-suited partner for collaborating on a trial service given its comprehensive network across the state and broad service offering that would allow multiple use-cases to be tested.

Leveraging an aligned network can enable cost-effective trials

The ability to leverage a pre-existing network will allow more cost-effective options for running a pilot than if the State Government had to establish all capabilities itself. Further, the collection of assets within the Australia Post network, as well as their location, provides maximum opportunity to test a proper service offering with reasonable coverage to the target customers.

FIGURE 7: Average distance from railway stations to the nearest post office[46]
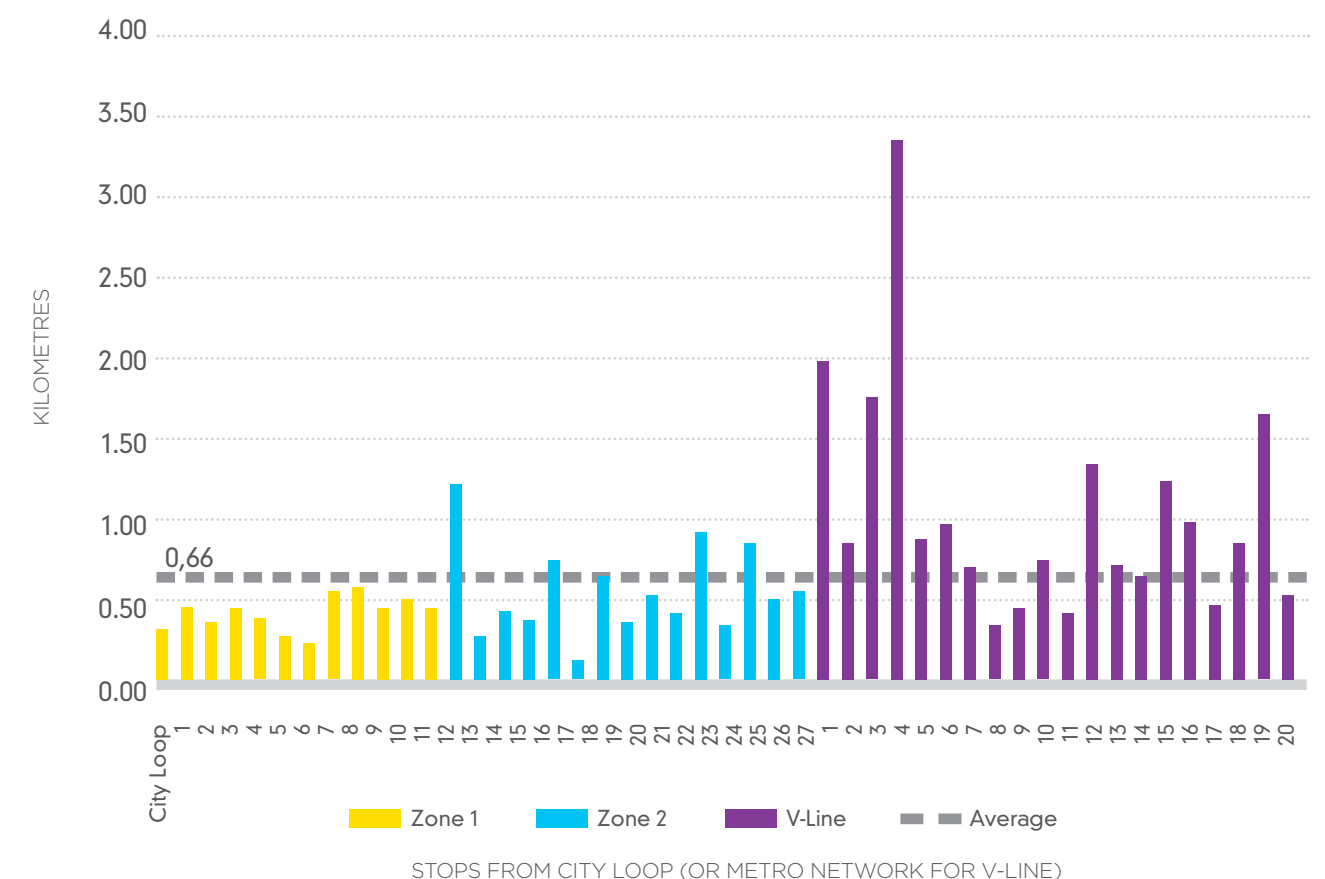
The proximity of post offices to train stations allows access to trained staff that are familiar with accepting packages and with appropriate planning, can incorporate the handling and transfer of packages to train services, the cost of which can be incorporated on a variable basis and therefore built into the price of the trial service. While this would help reduce the financial risk to the government of conducting a trial, it also helps create new revenue opportunities for post offices themselves by giving them a greater role to play in parcel delivery.

Broad customer-base allows testing of a variety of needs

The other advantage of collaborating with Australia Post is their broad service offering; they can help test a variety of customer needs and uses for a cross-town transport network, which provides data and information for developing an ongoing service that will deliver maximum value.

For instance, Australia Post's post office network allows Australia Post to test demand amongst both consumers and small business, who sometimes can't get accounts with express courier companies. Leveraging the train network will allow them to test a price-point for these customers that is lower than their current courier post offering or the cost of putting the parcel in a taxi for delivery.

Meanwhile, Australia Post's large base of contract customers would allow an offering for online retailers looking to offer affordable, same-day deliveries to their Victorians shopping online. Alternatively, for overnight shipments that Australia Post is bringing in from interstate, the train network could be used for recovery action to help deliver parcels that miss morning connections.

It is possible that the public transport network could be used to lower the cost of same-day inter-state services. This would come from using the hub at Southern Cross Station to consolidate packages heading to the airport (and break down packages that were flown in) and leveraging the partnership Australia Post has with Qantas for domestic and international air freight services.

Designing the right pilot to test each of these may require different approaches that ensure the results will be of use. For example, it would be possible to test what might work operationally without changing the customer experience or pricing. Of course, this will not tell us anything about the potential to increase demand via service improvements or lower prices. Similarly, it might make sense to offer a selection of online sellers a same-day service to a set of postcodes that can in the short-term even be delivered fully by road for the purpose of establishing customer demand while limiting operational risk.

PART 3:
MAKING COLLABORATION HAPPEN

There is of course nothing new in the idea that institutions and organisations can benefit from increased collaboration with one another and in the case of Australia Post specifically, many of the attributes of its network are not necessarily new. However, actual collaboration seems to occur at a rate below what might be expected when considering the benefits on offer.

A lack of collaboration can occur for a variety of reasons. For example, private sector firms will typically not collaborate in areas they deem to be a source of competitive advantage, but when this is the case at least, those same firms can be relied upon to invest in the relevant capability. In other cases, the costs of coordinating across many organisations might outweigh the individual benefits that can accrue to one company alone and so collaboration becomes less likely.

There can sometimes be a role for governments to step in and either play a coordinating role to help 'kick start' collaboration, alter the incentive structure via changes in policy or even mandate a more collaborative approach where a lack of collaboration has become endemic.

PRIORITY AREA 4:
REWARDING COLLABORATION

The impact of federalism on collaboration

In many ways the success of past reforms to modernise postal services in Australia has also put Australia Post at a relative disadvantage, compared to its historical self, when it comes to generating new lines of business via collaboration:

○ The split from Telecom Australia in 1975 means it no longer has the direct relationship with telecommunications that enabled it to build what is now its PostBillPay service.

○ Corporatisation under an independent board has placed it at arms-length from the policy-making process and therefore less able to spot opportunities for its network to support the implementation of new policies.

Meanwhile, Australia's Federal system of government means that only the Commonwealth has a direct stake in the viability of Australia Post via its policy responsibility for postal services and ownership of the government business enterprise. The states and territories, which have responsibility for the vast bulk of service delivery have less incentive to support its viability and indeed less 'control'. In contrast, countries such as New Zealand with only two levels of government - have seen much greater take-up by government agencies of the digital services offered by postal operators.

CASE STUDY

New Zealand's RealMe identity service

The New Zealand Government has backed NZ Post's verified identity service, RealMe, that allows people to prove whom they are to businesses and Government agencies without having to use physical documents such as drivers licences, passports, and utility bills.

Kiwis can use RealMe for accessing around 90 different government services, such as updating their electoral enrolment or applying for a student loan. Securing the involvement of 32 government departments and agencies is made easier by their being part of the same level of government as NZ Post itself.[47]

Giving the states and territories a stake in postal services policy

RECOMMENDATION 7

The Australian Government should consider a framework for individual states and territories to negotiate price and service agreements with Australia Post to reward jurisdictions for assisting with improving the sustainability of postal services.

Many of Australia Post's services are made available at uniform prices across the country. Sometimes this is for sound commercial reasons, and sometimes because of statutory requirements; or in other cases, political factors might make it too hard to implement different prices or services.

There may be a case for allowing Australia Post some flexibility to vary prices for individual states and territories, where their governments have collaborated with Australia Post to help improve the sustainability of its business and operations. For instance, if a state government can help improve the financial viability of the post office network or the public transport networks via some of the earlier recommendations in this report, then it might be appropriate for Australia Post to share some benefits with consumers and businesses in that jurisdiction, including via a different price structure.

Care will need to be taken to ensure that any arrangements do not give an unfair advantage to some states or territories over others. This can be achieved by involving the Commonwealth Department of Communications in any agreement and ensuring that consistent terms are made available across jurisdictions.

The ACCC monitors/checks for cross-subsidies from Australia Post's reserved service to its other businesses, meaning there is already transparency for ensuring such agreements cannot be used to provide Australia Post with an unfair advantage where it is competing with other businesses.

RECOMMENDATION 8

In conjunction with implementing the preceding recommendations, the Victorian Government and Australia Post should develop a model agreement for the Australian Government's consideration.

Rather than developing a framework in the abstract, the Victorian Government and Australia Post could develop a model agreement alongside the implementation of some of the recommendations made in Part 2 of this paper.

PRIORITY AREA 5: OVERCOMING COORDINATION FAILURE

If achieving collaboration within or between governments is difficult, it can be even more challenging when the private sector comes into the picture. Particularly regarding investing in or picking new technologies and where the existence of externalities or network effects create a risk of backing the wrong technology. These circumstances can cause individual companies adopting a wait-and-see approach where they focus on investments that can produce an internalised and leaving the higher benefits that might come from increased coordination or collaboration off the table.

While in the distant past governments overcame this problem for postal services via the introduction of a state monopoly, the rate of progress in technology and the growing role of digital in our economy would likely mean applying such an approach to solving digital collaboration would see the risks outweigh any benefits. The smarter way forward would be for governments to avoid smothering competition and innovation with a new government-mandated solution and opt for a light-handed approach that contributes the government's transaction volumes to shared solutions that help overcome coordination failures.

The role of universal service providers

RECOMMENDATION 9

The Australian Government should encourage Australia Post to leverage the universal nature of its letters service where it can help accelerate Australia's digitalisation by overcoming lack of coordination or market failure.

In the case of Australia Post, this would mean continuing the historical trajectory that has brought us to a narrow, reserved service alongside a broader commercial offering of postal services that are subject to competition. While this would avoid granting any new monopolies or exclusive rights to Australia Post, it should be open to opportunities may have to leverage the universal nature of the postal service to help accelerate and spread the benefits of digitalisation.

In many ways, Australia Post has already done this informally or inadvertently in the past. For example, the introduction of postcodes in 1967 might have been done to make the sorting and processing of mail more efficient, but their universal adoption has allowed postcodes to be used as geographic identifiers inside computer databases across the economy with applications that span almost every sector.

Australia Post should be proactively encouraged to leverage its assets to drive digitalisation across the Australian economy, in particular where universality might help to overcome coordination failure. Some may be concerned that this could provide Australia Post with an unfair market power should it accumulates a network or platform business as a result. However it is worth recognising that, from an economic perspective, many digital platforms that gain wide-spread adoption often accumulate significant market power - so it is not as though this would be a new phenomenon. Further, its ownership structure would mean the Government has greater flexibility to countenance regulatory changes that might ameliorate these concerns should they

eventuate. Once again, the role of the ACCC in monitoring for cross-subsidies would help ensure this did not unfairly impact any competitors to other businesses operated by Australia Post.

A short-term opportunity for Australia Post to act unilaterally

RECOMMENDATION 10

Australia Post should integrate the mail redirection and change of address services into the basic letters service, recouping the costs and foregone revenue via an increase in postage.

One example that we see as ideal for this approach is for mail redirections and change of address services. At least 2.1 million Australians move home every year,[48] leading many households to take out a mail redirection with Australia Post while they go about providing their new address to their various suppliers, service providers, and friends.

Streamlining the process for notifying of a change of address has been one of the long-term holy grails of government transformation programs, going back more than a decade to the former Howard Government's Access Card program. However, a variety of systems and privacy challenges mean that the worthy goal has met with limited success. Even Australia Post's Change of Address Notification has had its effectiveness curtailed by the need to obtain authority for each individual on a household's application for a mail redirection.

Charging individual households for a mail redirection made obvious sense when the overall process was largely manual. For instance, the paper-based application form and manual application of redirection stickers impose a significant additional cost that was appropriately passed on to the household. However, as the processes can be digitalised, for example with an online application form or the automated application of redirection stickers on some of Australia Post's new sorting machines, we are approaching a point where it might make sense

to build redirections into the overall service.

Just as Sir Rowland Hill found the costs of administering variable postage rates to vastly outweigh the actual costs of transporting mail across the UK, the costs of the current approach to redirections could significantly outweigh the actual costs after digitalisation and automation. Continuing to charge for and manage mail redirections at a household level could be inhibiting more efficient options.

An alternative would be for Australia Post to make mail redirections freely available and recover the costs through an increase in the rate of postage, with a rebate payable to bulk senders for mail addressed with an up-to-date address. This would provide all people with a maximum incentive to sign up for a mail redirection since there wouldn't be a direct cost and they could avoid the hassle of manually updating their address. The rebate would provide an incentive for senders to help minimise additional processing by using current up-to-date addresses obtained either from their customers directly or indirectly via Australia Post.

To make this change financially sustainable for Australia Post the increase in postage should not only cover the direct costs of redirections but should be able to factor in the foregone revenue that would have contributed to the viability of post offices and other parts of its network. While it might seem desirable to avoid any additional impost on business, in exchange for the increase they will be receiving a more accurate and reliable service with fewer, if any, returned mail to process as well as the opportunity to access the rebate. This approach is also consistent with that taken by Sir Rowland Hill. He accepted the need to maintain revenue (which in the face of structural declines in letter volumes seems reasonable), but also to find a more efficient way of raising that revenue.

Australia Post may even wish to consider allowing individuals to have a permanent mailing address that they can use instead of their residential address, giving them additional flexibility and control to protect their privacy by restricting who has knowledge of where they live without limiting who can send them mail. Australia Post may even wish to use third-party addresses such as phone numbers and email addresses as a mailing address, where the owner could nominate the final point of delivery. This could create new opportunities and uses for mail particularly around consumer and business marketing, while simultaneously strengthening privacy protections. It could help build a useful tool in addressing the growth in phishing and other email-based cyberattacks, by enabling email addresses to be married with real-world communications profiles that could assist with weeding out fake or threatening emails.

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