Addendum to chapter 6 – Earning a commercial rate of return

July 2025

Chapter 6 of the Australian Government Competitive Neutrality Complaints Office (AGCNCO) report *Australia Post – Investigation no. 19* dealt with whether Australia Post was complying with the requirements of competitive neutrality policy to earn a commercial rate of return. The AGCNCO found that Australia Post is complying with these requirements, once the losses made from the community service obligations (CSOs) performed by Australia Post were taken into account (finding 6.1).

This finding was made based on a comparison of Australia Post's return on operating assets (adjusted for the CSO losses) against a benchmark consistent with competitive neutrality policy, chosen based on the then publicly available information and advice from the parties to the complaint.

On 13 December 2024, the Conference of Asia Pacific Express Carriers (CAPEC) wrote to the AGCNCO advising that it had identified an error in the calculation of Australia Post's rate of return, which had 'material implications' for the report's finding.

The AGCNCO has assessed CAPEC's further submissions and agrees that further consideration of Australia Post's rate of return is warranted to give a complete assessment of competitive neutrality requirements, particularly the assets that should be included in a rate of return assessment for a government business that also operates significant CSOs. Following this further consideration, the AGCNCO continues to be of the view that Australia Post is meeting the requirement to earn a commercial rate of return.

1. CAPEC's comments on the AGCNCO's findings

In its letter of 13 December 2024, CAPEC submits that the AGCNCO's assessment of Australia Post's rate of return is based on the return on Australia Post's average operating assets, whereas the assessment for competitive neutrality purposes should be based on Australia Post's total assets. CAPEC advises that:

> Crucially, using the corrected figures, **Australia Post's average adjusted return on assets over the past 5 years was shown to be only 5.9%**, much lower than the 12.4% currently stated in the Report. Over the past decade its return was only 5.6%, which is also much lower than the 10.9% currently stated in the Report. Both of these **figures fall materially short of the benchmarks** for a normal commercial rate of return identified by the AGCNCO in the Report, being the upper bound weighted average cost of capital estimates for Australia Post's overall business operations **of 8.84 to 9.73% and the risk broad-banding estimate of 11.0%** [emphasis added] (CAPEC 2024)

To support these claims, CAPEC presented revised calculations for Australia Post's rate of return, demonstrating Australia Post had not earned a commercial rate of return when using a return on total assets, compared to the benchmark used by the AGCNCO (table 1).

Table 1 – CAPEC's revised calculations for Australia Post's rate of return

Financial year	Total assets ($m)	Pre-tax profit (loss) ($m)	Return on total assets (%)	CSO loss ($m)	Adjusted pre-tax profit (loss) ($m)	Adjusted return on total assets (%)
2013-14	4651.2	103.0	2.2	203.5	306.5	6.6
2014-15	5094.4	(352.1)	(6.9)	210.8	(141.3)	(2.8)
2015-16	5043.2	41.0	0.8	182.5	223.5	4.4
2016-17	5537.3	126.1	2.3	389.9	516.0	9.3
2017-18	5589.1	125.7	2.2	403.2	528.9	9.5
2018-19	5535.6	41.1	0.7	392.2	433.3	7.8
2019-20	6785.3	53.6	0.8	393.3	446.9	6.6
2020-21	7064.9	100.7	1.4	348.3	449.0	6.4
2021-22	6293.4	55.3	0.9	348.5	403.8	4.8
2022-23	6353.5	(200.3)	(3.2)	442.2	241.9	3.8

Source: CAPEC (2024).

2. Submissions from Australia Post and relevant government departments

To inform its consideration of the issues raised by CAPEC, the AGCNCO sought views from Australia Post, and the departments administered by Australia Post's shareholder ministers: the Department of Finance; and the Department of Infrastructure, Transport, Regional Development, Communications and the Arts.

Australia Post responded to the matters raised in CAPEC's letter on 3 February 2025. In its response, Australia Post submitted that:

- Australia Post is subject to several requirements to operate commercially through its legislation, engagement with government and competitive neutrality policy.
- The rate of return on operating assets has been the measure adopted in Australia Post's corporate planning and annual reporting for many years.
- A rate of return on total assets includes significant non-operational elements, such as net assets held on behalf of Australia Post's defined benefit superannuation fund, which are unable to be used in Australia Post's operations.
- Australia Post's rate of return should not be assessed against a benchmark that may be higher than the rates of return of the global businesses represented by CAPEC.
- The Australian Government expects Australia Post to invest the resources needed to implement regulatory reforms and modernise its business.
- The Post26 strategy includes further transformation activities involving significant non-recurring costs that lower returns over the short to medium term ($306.1 million investments in FY 2024).

- The rate of return should be calculated using ‘net profits before tax (excluding net interest)’, where CAPEC’s calculations use ‘net profits before tax’. This approach is consistent with accounting practice to enable better comparability across years.

The departments provided a joint response on 3 March 2025. The departments submit that:

- The *Australian Postal Corporation Act 1989* (Cth) includes a requirement for the Australia Post Board to have regard to the need to earn a reasonable rate of return on assets.
- A reasonable rate of return can be less than a commercial rate of return, which would be the normal starting point for a government business enterprise, making notional adjustments for community service obligations.
- The Australian Government has announced reforms to modernise postal services to address the decline in Australia Post’s letters business.
- There reforms have led to efficiencies and contributed to an improved financial position for Australia Post in 2023-24.
- The shareholder ministers issued a new Statement of Expectations for Australia Post (effective from 1 July 2024). This statement advises of the government’s expectations that Australia Post perform its functions in a manner consistent with sound commercial practice.
- The Australian Government continues to work with Australia Post and stakeholders so that services meet the needs of modern Australia, consistent with updated regulatory requirements.

3. Is Australia Post earning a commercial rate of return?

Chapter 6 of the AGCNCO’s report sets out the policy requirements for government businesses to earn a commercial rate of return and details the AGCNCO’s approach to assessing compliance. The AGCNCO has also considered relevant policy guidance in its further assessment of Australia Post’s rate of return (box 1).

Box 1 – Select policy and guidance on considering a commercial rate of return

On earning a commercial rate of return, the Commonwealth Competitive Neutrality Policy Statement advises that:

> Government Business Enterprises are specifically required to achieve, over time, as a minimum benchmark, economic rates of return on assets for their commercial operations equivalent to the long-term bond rate plus an appropriate margin for risk. (p. 18)

The risk broad-banding approach used in chapter 6 of the report is set out in the *Competitive Neutrality Guidelines for Managers* (The Treasury and DOFA 2004), which states:

> When calculating a [weighted average cost of capital (WACC)] is not feasible, but managers are able to estimate a business’s level of market risk, determining the target RoR based on broad-banding may be appropriate. Broad-banding is based on typical WACCs for businesses with high, medium and low levels of market risk. Risk broad-banding applies a benchmark base cost of capital (such as the Commonwealth long term bond rate) and adds a risk premium. The AGCNCO has estimated a reasonable RoR for different levels of risk, shown in the table below:

Box 1 – Select policy and guidance on considering a commercial rate of return

Risk Assessment	Base Rate	Risk premium	Required pre-tax rate of return
Low	10 year bond rate = 5%	3%	8%
Medium	10 year bond rate = 5%y	5%	10%
High	10 year bond rate = 5%	7%	12%

> The risk premium implicit in the RoR target is determined by the business with reference to the nature of its operations and the environment in which it operates. (p. 32)

The AGCNCO's research paper, *Rate of Return Issues* (1998b) considers the purpose of assessing rates of return for competitive neutrality, compared to assessing the performance of a business:

> While rate of return issues for competitive neutrality and performance monitoring are conceptually the same, procedurally they involve quite different objectives. The aim of performance monitoring is to establish procedures to assess the performance of government businesses against their stated objectives. In essence, it is intended to help ensure efficient resource use within the business. It is an ongoing process in which considerable resources can be invested. By contrast, a key role of complaints units is to determine whether a government business sets prices on a competitively neutral basis to help ensure that there is efficient allocation of resources between the public and private sectors (p. 2).

This paper also cautions against making hard and fast determinations against a single benchmark over a short period of time:

> The imprecision and potential sources of error in setting and measuring returns suggests that the [AGCNCO] should exercise a degree of judgement when comparing the financial performance of a business against its rate of return target. (p. viii).

The Competitive Neutrality Policy Statement does not offer direct guidance on which assets of a business should be considered in assessing the requirement to earn a commercial rate of return. The Victorian Department of Treasury and Finance has considered this issue and advises:

> The asset base to which the rate is to be applied can be defined as:
>
> - total current assets (eg working capital, debtors, stock); plus
> - total non-current assets (eg written down value of physical assets), owned and employed in the production of the relevant output. (2019, p. 37)

Approaches to calculating a commercial rate of return for CN policy

Recognising the imprecise nature of calculating a commercial rate of return for the operations of a government business, the AGCNCO has adopted a range of approaches to calculate rates of return in its previous investigations (table 2). These examples highlight how the approach to calculating rates of return can be tailored to meet the circumstances of an investigation and reinforce the AGCNCO's expressed views about the need for caution when interpreting the results.

Further, the *Australian Government Competitive Neutrality Guidelines for Managers* advises that the rate of return may be measured through a return on total assets, which is calculated using 'earnings before interest and tax' and 'total assets'.

Table 2 – Approaches adopted by the AGCNCO to calculate rates of return

Investigation	Approach to calculating rate of return
Australia Post (2024)	Net profit before tax excluding interest and operating assets.
NBN Co (2022)	Whether projected long-run cashflows of the business are sufficient to recover the cost of capital (the WACC).
ARRB Transport Research Ltd (2001)	Total operating profit before income tax and net assets.[a]
Docimage Business Services (2001)	Net profit to sales ratio, compared to industry practice.
National Rail Corporation Ltd (2000)	Adjusted earning before interest and taxation (excluding abnormals) and shareholder equity and debt,[b] to calculate the government's return on investment.

a. Where net assets equals total assets less total liabilities. **b**. Where shareholder equity equals net assets.
Source: AGCNCO (2024), AGCNCO (2022), AGCNCO (2001a), AGCNCO (2001b), AGCNCO (2000a).

What is the appropriate asset base for calculating rate of return?

In its investigation report, the AGCNCO used a rate of return on Australia Post's operating assets to assess whether it is earning a commercial rate of return. Operating assets are future economic benefits that are used in the day-to-day operations of the business (AASB 1996, p. 28). As Australia Post submits, operating assets enable the performance of the business to be assessed. In the case of a government business and competitive neutrality this includes whether the commercial operations meet the performance standard of private sector counterparts.

Given the varied approaches taken in previous investigations, and the further concerns expressed by CAPEC, it is worth considering alternative approaches to ascertain whether Australia Post's rate of return is likely to meet commercial standards. In particular, using a form of total assets enables a comparison of the use of assets within the public sector to their use in the private sector, rather than to assess the performance of the business itself (AGCNCO 1998b, p. 2).

However, the AGCNCO recognises that Australia Post holds assets to comply with the government's expectations that Australia Post will perform community service obligations (CSOs) and meet regulated performance standards in their delivery. As noted in chapter 5 of the report, the ACCC and the Minister for Communications each have a role in the regulation of pricing for these services. Relevant to considering a business that provides services on a commercial basis and performs CSOs, the AGCNCO has considered a number of complaints where a government business and a 'parent' government agency share resources (box 2).

Box 2 – Attribution of assets, costs and revenues between government businesses and non-business ‘parent’ entities

The AGCNCO’s research paper, *Cost Allocation and Pricing*, advises on the preferred approach for attributing assets for the purposes of competitive neutrality policy:

> [M]any business units use the assets and resources controlled by larger non-commercial agencies. In these circumstances, the way a parent agency allocates costs to its business unit can have a significant impact on the unit’s cost base and on price levels. Therefore, cost allocation may be central to resolving complaints that such business units are undercharging for their output. (AGCNCO 1998a, p. vii)
>
> If a business unit can earn revenue to equal (or exceed) its avoidable costs, it will impose no costs on the non-commercial agency in which it is housed. It will also be generating a commercial return on its own assets. Where non-commercial agencies have assets with spare capacity, the avoidable cost method will allow such capacity to be used commercially, rather than potentially have it lie idle. (AGCNCO 1998a, p. 14)

In applying that guidance in its investigation on the ABC Production Facilities, the AGCNCO said:

> [A] government business, using assets and resources which are necessary for the functions of the non-commercial parent agency, will be complying with competitive neutrality if its prices for commercial output exceed the *avoidable cost* of supplying the service. (AGCNCO 2000b, p. 4).

In assessing that investigation, the AGCNCO concluded that the ABC was using a fully distributed cost approach to attribute assets between the business and parent and, with only 3–4% of all work being commercial work, few (if any) assets were purchased specifically for the commercial operations. This meant that the incremental assets were fewer than those that would be attributed using the fully distributed cost approach.

In its investigation of the Australian Institute of Sport Swim School (AISSS), the AGCNCO noted that:

> [the] AISSS would be ‘subsidised’ if it did not recover in full the costs that should be attributed to its operations ... It is therefore important to assess whether the costs collocated to the AISSS accurately reflect the costs its use of these shared facilities imposes on the AIS.

In applying this approach to the investigation, the AGCNCO concluded that:

> The incremental (or avoidable) cost arising from AISSS activities relates only to its use of the facilities – such as any additional chemical treatment and heating expenses, or from replacing alternative commercial users of the facilities … the facilities rent charge levied by the AIS more than recoups the avoidable cost of providing and operating the facilities used by the AISSS. (AGCNCO 1999, p. 5)

For the purposes of competitive neutrality policy, it is sufficient if Australia Post’s rate of return on its non-CSO business earns a commercial rate of return on the incremental assets held for that business (i.e. excluding the assets that Australia Post is required to hold to deliver its CSOs).

The AGCNCO has not been able to calculate the assets in this way, due to Australia Post’s advice on the complexity of such an approach (Australia Post 2025, p. 3). As a proxy for using incremental assets, the AGCNCO has attributed assets based on the proportion of total revenues for Australia Post’s reported letter revenue (CSO adjusted) and non-letter revenues business. Using a 5-year average, assets apportioned to the non-CSO business are 75% of total assets. The AGCNCO notes that incremental assets are likely to be significantly less than this, unless a vast majority of the assets employed in the CSO business are fully depreciated.

In addition, assets that are unable to be employed in the commercial operations of the business to produce output should also be excluded from assessing the rate of return (Victoria Department of Treasury and Finance 2019, p. 37). Relevantly, the AGCNCO recognises that Australia Post is required to report the net defined benefit superannuation asset (or liability, as may be the case) as a part of total assets on its balance sheet. The net asset in the balance sheet is a calculation of the surplus of assets over the actuarially determined defined benefit liabilities (Australia Post 2024, p. 146). The AGCNCO notes that this does not represent actual assets held by or available to support Australia Post's business operations and the defined benefit assets of the Australia Post Superannuation Scheme are held in trust. The AGCNCO has excluded reported superannuation assets from its consideration of Australia Post's rate of return (table 3).

Finding 1
Competitive neutrality policy requires Australia Post to at least earn a commercial rate of return on the assets it employs in its commercial operations, incremental to those needed to perform its community service obligations

The AGNCO has taken into account the additional information provided by CAPEC on calculating Australia Post's rate of return. The AGCNCO notes that approaches to assessing rates of return for competitive neutrality policy can vary to best reflect the operations of the government business involved.

The approach adopted in the AGCNCO's investigation report provided a useful, but potentially incomplete, assessment. The assessment of Australia Post's rate of return for competitive neutrality purposes should be based on those assets:

- that are incremental to those held by Australia Post to the CSO business
- are employed in these commercial operations, meaning assets held for the defined benefit superannuation fund should be excluded.

Table 3 – Revised consideration of Australia Post's rate of return

	Total assets ($m)	Relevant assets ($m)[a]	Pre-tax profit (loss) ($m)	CSO loss ($m)	Adjusted pre-tax profit (loss) ($m)[b]	Rate of return (%)
2013-14	4651.2	3452.6	103.0	203.5	336.5	9.7
2014-15	5094.4	3361.1	(352.1)	210.8	(115.3)	(3.4)
2015-16	5043.2	3479.7	41.0	182.5	251.9	7.2
2016-17	5537.3	3627.7	126.1	389.9	557.3	15.4
2017-18	5589.1	3502.8	125.7	403.2	541.5	15.5
2018-19	5535.6	3514.0	41.1	392.2	459.3	13.1
2019-20	6785.3	4618.8	53.6	393.3	492.5	10.7
2020-21	7064.9	4600.3	100.7	348.3	487.9	10.6
2021-22	6293.4	4007.2	55.3	348.5	437.0	10.9
2022-23	6353.5	4164.8	(200.3)	442.2	279.4	6.7
2023-24	6121.8	4133.4	(88.5)	447.0	399.1	9.7

a. Australia Post's total assets less superannuation assets, apportioned by revenue share, PC estimates. **b.** Australia Post pre-tax profits, adjusted for CSO activities, and net of interest, PC estimates.

Source: Australia Post (2024, 2023, 2021, 2019, 2017, 2015).

Over the past 11 years Australia Post's rate of return has averaged 9.6% when calculated in the manner set out in table 3. The benchmark rates of return applied in the investigation report were the likely upper bound WACC estimates for Australia Post's overall business operations of 8.84% to 9.73% or with a risk broad-banding estimate of around 11.0%.

The AGCNCO notes Australia Post's advice that investments in reforming Australia Post's business have reduced returns in recent years. The AGCNCO expects Australia Post's return to increase in the short-medium term to continue to be compliant with competitive neutrality policy obligations.

These results show that Australia Post is meeting its obligation under competitive neutrality policy to earn a commercial rate of return, noting that:

- the calculated average rate of return is at or marginally above the lower end of the benchmark band
- a degree of judgement is needed in assessing financial performance (AGCNCO 1998b, p. 23)
- assets have been attributed based on revenue share; an assessment using incremental assets and avoidable costs would likely give a significantly higher rate of return.

Finding 2
Australia Post is complying with competitive neutrality policy by earning a commercial rate of return

Australia Post is earning a commercial rate of return on assets as required by competitive neutrality policy, once profitability is appropriately adjusted to:

- account for the reductions in profits caused by internally funded community service obligations
- recognise that a proportion of assets are for the performance of these community service obligations or reflect accounting requirements for net superannuation assets.

Appendix – Benchmark rate of return

The AGCNCO has concluded that Australia Post is earning a commercial rate of return compared to the benchmark rate of return used in the investigation report.

In considering the rate of return, the AGCNCO also gave further consideration to the appropriate benchmark. While further considering the benchmark was not required, this appendix provides comment on the components of the risk broad-banded benchmark used in chapter 6 of the investigation report, and how these could be applied in future complaints.

The calculation of the long-term bond rate?

In chapter 6 of the report, the AGCNCO applied the Australian Government 10-year bond rate as at 30 June 2023 as the long-term bond rate for assessing Australia Post's rate of return for each financial year. This approach was determinative as the long-term bond rate at 30 June 2023 was higher than any previous period under consideration.

However, using a single daily rate to assess rate of return over several years risks not recognising differences between years, as economic conditions change, and between days, as markets fluctuate. Using an average, for example a 20 business-day average of the Australian Government 10-year bond rate to 30 June for each year, could address these issues.

What is the appropriate risk margin?

The AGCNCO used a risk margin of 6.6% in chapter 6 of the report, as an approximate average of 5.98% for the reserved letter business and 7% for the parcel delivery business. This was based on views provided by CAPEC (AGCNCO 2024, p. 68). As with the long-term bond rate, using the highest risk weighting recommended by the *Guideline for Managers* was determinative in the assessment.

The AGCNCO has given further consideration to the appropriate risk margin. In the absence of further evidence from CAPEC, Australia Post and the relevant government departments, the AGCNCO has examined additional sources to provide an indication of risk.

In the ACCC's assessment of Australia Post's price notification (most recently in its decision in March 2024) the ACCC takes into account the riskiness of returns, presented as the 'equity beta' for the WACC. The equity beta represents the correlation between the return of the firm and the return of the market as a whole. A business with risk lower than the market average will have an equity beta of less than one, with a firm riskier than the market average having an equity beta of greater than one (ACCC 2024a, p. 65). The ACCC received reports on the market volatility of similar parcel businesses, which demonstrate that these businesses have risk equal to or marginally higher than the market average (Deloitte 2022, p. 17). The AGCNCO considers this is consistent with a medium risk.

The AGCNCO has also considered the market risk premium applied by other regulators in assessing rates of return. The market risk premium represents the difference between the expected return on a market portfolio and the return on the risk-free asset (AER 2024, p.17). The Australian Energy Regulator has applied a market risk premium of 6.2% in its recent determinations, and the ACCC has adopted this market risk premium in its recent decisions (ACCC 2024a, p. 64, 2024b, p. 59). Similarly, the Independent Pricing and Regulatory Tribunal currently uses 6.1% for its market risk premium (IPART NSW 2024, p. 2).

Based on these sources, the AGCNCO could have applied a risk weighting of between 5% (the medium risk margin from the *Competitive Neutrality Guidelines for Managers*) and 6.2% (the market risk premium applied by other regulators).

The AGCNCO's assessment of Australia Post's rate of return

If the approach to calculating the rate of return had been further reviewed considering the matters set out in this appendix, then Australia Post would meet a revised benchmark range for the rate of return in nine of the previous 11 financial years (table 4 and figure 1).

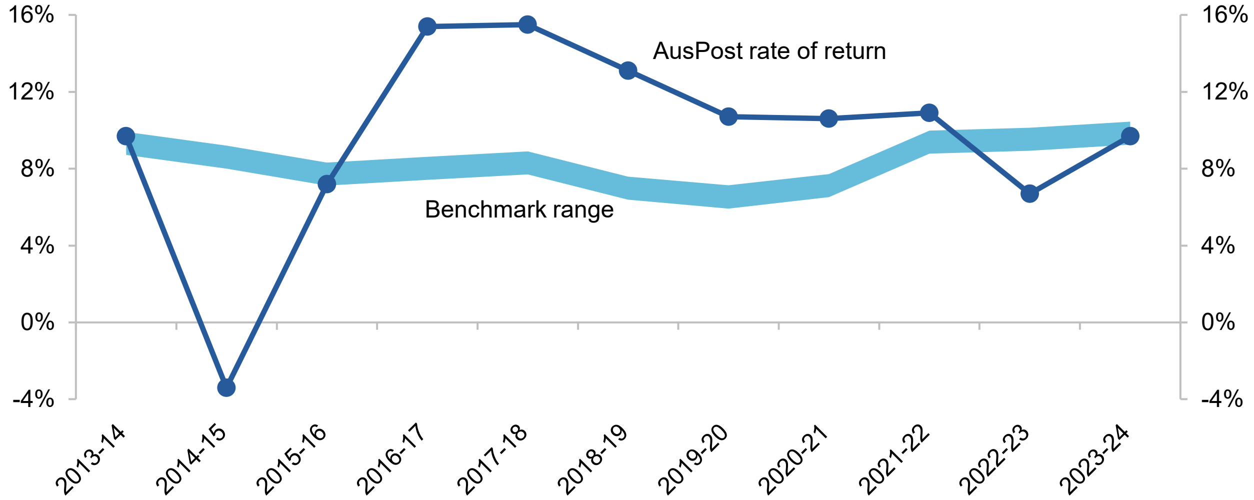
Table 4 – Revised consideration of Australia Post's rate of return

	Relevant assets ($m)[a]	Adjusted pre-tax profit (loss) ($m)[b]	Rate of return (%)	Long-term bond rate (%)[c]	Margin for risk (%)	Benchmark range (%)
2013-14	3452.6	336.5	9.7	3.71	5 – 6.2	8.7 – 9.9
2014-15	3361.1	(115.3)	(3.4)	3.00	5 – 6.2	8.0 – 9.2
2015-16	3479.7	251.9	7.2	2.12	5 – 6.2	7.1 – 8.3
2016-17	3627.7	557.3	15.4	2.42	5 – 6.2	7.4 – 8.6
2017-18	3502.8	541.5	15.5	2.70	5 – 6.2	7.7 – 8.9
2018-19	3514.0	459.3	13.1	1.39	5 – 6.2	6.4 – 7.6
2019-20	4618.8	492.5	10.7	0.93	5 – 6.2	5.9 – 7.1
2020-21	2600.3	487.9	10.6	1.53	5 – 6.2	6.5 – 7.7
2021-22	4007.2	437.0	10.9	3.78	5 – 6.2	8.8 – 10.0
2022-23	4164.8	279.4	6.7	3.93	5 – 6.2	8.9 – 10.1
2023-24	4133.4	399.1	9.7	4.25	5 – 6.2	9.3 - 10.5

a. Australia Post's total assets less superannuation assets, apportioned by revenue share, PC estimates. **b.** Australia Post pre-tax profits, adjusted for CSO activities and net interest, PC estimates. **c.** 20 business day average of 10-year bond rate to 30 June. PC estimates from RBA (2025).

Source: Australia Post (2024, 2023, 2021, 2019, 2017, 2015); RBA (2025).

Figure 1 – Australia Post’s rate of return compared to the benchmark range 2013-14 to 2023-24



Source: PC estimates based on Australia Post (2024, 2023, 2021, 2019, 2017, 2015); RBA (2025).

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