



COVERSHEET

Minister	Hon Dr David Clark	Portfolio	Digital Economy and Communications
Title of Cabinet paper	Future of Mail – Managed Transition to Commercial Sustainability for New Zealand Post	Date to be published	22 December 2021

List of documents that have been proactively released

Date	Title	Author
September 2021	Future of Mail – Managed Transition to Commercial Sustainability for New Zealand Post	Office of the Minister for the Digital Economy and Communications
4 October 2021	Future of Mail: Managed Transition to Commercial Sustainability for New Zealand Post CAB-21-MIN-0400 Minute	Cabinet Office

Information redacted

YES / NO

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of:

- Commercial information
- Negotiations
- Confidential advice to Government
- Free and frank opinions
- Constitutional conventions.

Commercially Sensitive

Office of the Minister for the Digital Economy and Communications

Cabinet Economic Development Committee

Future of Mail – a managed transition to commercial sustainability for NZ Post

Proposal

- 1 To seek Cabinet's:
 - 1.1 endorsement of New Zealand Post Limited (NZ Post) moving to a commercial pricing approach that will allow its mail business to be sustainable in the future; and
 - 1.2 approval either:
 - 1.2.1 of a policy of smoothing the necessary mail price increases [REDACTED] Commercial Information to deliver benefits for postal users and postal workers, at [REDACTED] Commercial Information [REDACTED], or
 - 1.2.2 to ask NZ Post to smooth those price rises [REDACTED] Commercial Information, and to provide a ministerial letter of comfort to NZ Post that signals the Government's intention to [REDACTED] Commercial Information [REDACTED] [REDACTED]

Executive Summary

- 2 The government requires NZ Post to maintain a nationwide mail network. These requirements are set out in a Deed of Understanding (the Deed).
- 3 Mail use has been declining for many years, as digital communication rises. Decline in mail volumes means NZ Post cannot currently meet the delivery requirements of the Deed on commercial terms without significant mail price increases.
- 4 NZ Post alerted the Government to the significant challenges the mail business was facing in late 2019 and was allocated \$130 million in Budget 2020 for a three year period to maintain its current postal service under the Deed, while a longer-term solution was developed.
- 5 The funding has allowed a period of time to assess the value and use of mail and the role government should continue to play in ensuring a nationwide mail network. While many people are moving to digital communication, there are some people and organisations that still want, or rely on, mail.
- 6 NZ Post's Board (the Board) [REDACTED] Commercial Information a plan that will allow it to put its mail business on the path to commercial sustainability. This plan involves NZ Post making

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7 I am seeking Cabinet’s endorsement of NZ Post moving to a commercial pricing approach that will allow its mail business to be commercially sustainable in the future.

8 However, I am aware the Board’s plan will have a significant impact on mail users. To address this, I am seeking approval of one of two options:

8.1 Option 1: a policy to smooth the necessary mail price increases ^{Commercial Information} s to deliver benefits for postal users and postal workers. ^{Commercial Information}
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8.2 Option 2: ask NZ Post to smooth those price rises ^{Commercial Information}, and to provide a ministerial letter of comfort to ^{Constitutional conventions}

9 Both policy approaches will, first, recognise the commercial reality that NZ Post faces given the drop in mail volumes, and second, benefit all users of NZ Post’s mail services – individuals, the public sector, businesses and organisations – by providing a longer time period to transition to alternative communication methods where that is desired and possible.

10 Free and frank opinions

11 The Government’s decision is required by that date so that NZ Post can meet its contractual notice periods and begin to increase prices in July 2022.

12 I have agreed with NZ Post that there will be no changes to the Government’s minimum postal service requirements in the Deed at this time. This means NZ Post will continue to deliver letters with the same frequency. A review of the Deed, which was due in early 2021, will now be deferred until ^{Constitutional c} Commercial Information

The challenge facing NZ Post as mail volumes decline

NZ Post’s unique role in New Zealand’s mail industry

13 Under the Postal Services Act 1998,¹ postal operators must be registered. There are 16 registered postal operators in New Zealand,² but out of these, NZ Post is the only one

¹ For clarity, the Postal Services Act 1998 only relates to the delivery of basic postal items, which are letters with dimensions smaller than 260mm x 385mm x 20mm, and a weight under 1kg. Post is different from parcels, which are typically carried by couriers, and is not regulated by the Postal Services Act.

² The register may be viewed here: <https://www.mbie.govt.nz/science-and-technology/it-communications-and-broadband/postal-services-in-new-zealand/postal-register/>.

that has to meet Universal Service Obligations (mail service obligations). These obligations are set out in the Deed with the Crown.

- 14 The Deed requires NZ Post to maintain a nationwide postal network that meets specified service levels, relating to the frequency of delivery (rural and urban), the number of delivery points (addresses), and the number of customer-facing service locations (post shops).

Letter volumes have been consistently declining, reducing postal operators' revenue

- 15 The number of letters sent in New Zealand has been consistently dropping for many years, with the use of digital communication on the rise. Within NZ Post's network letter volumes have dropped every year since 2008. Commercial Information [REDACTED]
- 16 The decline in mail volume is a global trend, although New Zealand is experiencing a faster decline than average. Postal operators around the world are also reporting an acceleration of volume decline due to COVID-19 lockdown periods steering communications into digital channels.³
- 17 Declining letter volume has reduced the profitability of postal services. Even though NZ Post has made regular price increases to maintain revenue (the price of a stamp has increased from \$0.60 in 2010 to \$1.50 in 2021) the increases have not generated enough revenue to compensate for volume loss over the nationwide mail network.

Interim funding was provided to NZ Post in 2020

- 18 In late 2019, NZ Post approached the Government because its mail business was no longer commercially sustainable under the current price settings and it could not reduce costs quickly enough due to the nature of its nationwide mail network.
- 19 As an interim response, \$130 million in transitional funding was allocated to NZ Post in Budget 2020. The funding was to maintain NZ Post's current mail network while a transition away from letter reliance was developed [*CAB-20-MIN-0155.05 refers*].
- 20 Part of the reason why funding was provided to NZ Post in 2020 was so it could continue to meet its mail service obligations, set out in the Deed with the Crown, without significant price rises in the short term.
- 21 As of July 2021, Commercial Information [REDACTED] of the Budget 2020 funding has been paid to NZ Post by the Crown. This is roughly in line with projections. [REDACTED]

Commercial Information [REDACTED]

³ The International Post Corporation's Global Postal Industry Report's Key Findings (here: <https://www.ipc.be/sector-data/postal-sector/key-findings>) showed an average decline in letter volume of 7.2 percent.

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- [Redacted]
- [Redacted]

mail business to commercial sustainability

- 24 Since the Government funding was provided, work has been underway to determine the sorts of changes that are required for NZ Post’s mail business to be commercially sustainable.
- 25 This work was required because:
 - 25.1 the funding was intended to be transitional. It was to support NZ Post while a longer-term solution is developed; and
 - 25.2 as a State-owned enterprise (SOE), NZ Post cannot perpetually operate a business at a loss by providing non-commercial services. Its Board must make decisions that meet the principle objective of every SOE, which is to seek to ensure the company operates as a successful business.⁴

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- [Redacted]
- [Redacted]
- [Redacted]

⁴ Section 4 (1) of the State-Owned Enterprises Act 1986.

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[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

29 Commercial Information [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

30 Commercial Information [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Commercial Information [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

32 On this basis, I have agreed with NZ Post that a review of the Deed be deferred [REDACTED] Commercial Information [REDACTED]

[REDACTED] At this time I expect the review will be an opportunity to evaluate the service requirements of the Deed in light of New Zealanders' changing use of the mail service, Commercial Information [REDACTED]

[REDACTED]

33 In the meantime, NZ Post will continue to meet the key requirements of the Deed, which include:

- 33.1 a minimum frequency of mail delivery of three days per week in urban areas, and five days per week in rural areas (with a few exceptions);
- 33.2 a requirement to deliver mail to 1,910,010 addresses and to add new addresses unless it would jeopardise the commercial sustainability of its service; and
- 33.3 an obligation to maintain at least 880 post shops, 240 of which provide personal assistance and a wider range of products and services.

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34 I am seeking Cabinet’s endorsement of the Board’s intention to move to a commercially sustainable model for its mail services. Commercial Information

[Redacted]
[Redacted]
[Redacted] The Budget 2020 funding was intended to be an interim measure to allow time for a longer-term solution to be developed. Commercial Information

35 However, I am aware that significantly increasing the mail price in July 2022 will have an impact on postal users, and those involved in the mail industry. For this reason, I am proposing that the Government adopts one of two possible approaches to help spread the impact of this change Commercial Information

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36 Out of the approximately 300 million letters sent through NZ Post’s network in 2020, around 1% were paid for by private individuals, Commercial Information

[Redacted].

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[Redacted]

Individuals as both recipients and senders of mail

37 People who still use mail tend to use it to receive important information, to engage with society, and to both send and receive letters with friends and family members.

38 The majority of letters are sent by larger organisations, but it is expected that many of these letters are received by individuals. Commercial Information

[Redacted]
[Redacted]
[Redacted].

39 I have identified four groups that may be most affected by the proposed price increases:

39.1 *People living in rural communities.* People living in rural communities currently receive mail five days per week, and, as noted above, are more likely

⁵ Commercial Information

to send and receive letters than others.⁶ Greater importance may be put on mail due to more limited rural broadband and mobile connectivity. There are already significant Government-led initiatives underway to improve rural connectivity. By the time these are complete at the end of 2023, 99.8% of New Zealanders will have access to better broadband.

39.2 *Older people.* Older people are more likely to send and receive letters than others.⁷ Older people are also more likely to face barriers to digital inclusion, for example, while 85% of people aged 66-75 have reported having access to the internet, only 60% of people over the age of 75 reported having access.⁸ Some older people may be less able to use alternatives to mail, and others may rely on mail out of a preference.

39.3 *Disabled people.* Disabled people are also likely to face barriers to digital inclusion. According to the 2018 Census, only 77% of disabled people live in households with access to the internet, compared to 92% of non-disabled people. This means that some disabled people may be less able to use alternatives to mail. Increases to the price of mail carries risk that some disabled people will face difficulties accessing services, experience less independence, and be less able to participate in their local community.

39.4 *People who face barriers to the uptake of digital alternatives.* Confidentiality
[REDACTED]
[REDACTED]
[REDACTED] A 2019 report by Motu Economic and Public Policy Research into digital inclusion found that people are more likely to experience digital exclusion if they are older, living in a rural location, living in social housing, disabled, or identify as a Pacific person or Māori (among others).⁹ The Department of Internal Affairs estimates that as many as 20% of people in New Zealand lack at least one of the four elements needed to be digitally included – motivation, access, skills or trust.

40 Even though individuals only send about three million letters per year, and the cost per letter seems small – for example, Commercial Information – the money may be important for people who send letters, particularly if they are on fixed incomes or at risk of digital exclusion. A large price increase could affect the ability of some people to keep in contact with friends and family.

Impacts on private sector businesses and organisations

41 Out of the Commercial Information sent through NZ Post’s network in FY 20/21, Commercial Information were sent by private businesses and

[REDACTED]
Confidentiality

[REDACTED]
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⁸ http://motu-www.motu.org/nz/wpapers/19_17.pdf In the study, the definition of “internet access” was determined within the NZES 2017 data, as “whether an individual ticked yes to one or more of: having access to the internet at work, having access to the internet at home, having access to the internet on mobile or having access to the internet somewhere else, without ticking yes to having no access to the internet. The no internet category is applied to individuals who ticked no access to the internet and did not tick yes to any form of internet access.”

⁹ http://motu-www.motu.org/nz/wpapers/19_17.pdf

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organisations. It also appears that as many as **Commercial Information** of these letters sent by businesses and organisations are sent using the ‘bulk mail’ product which accounts for **Commercial Information** of all mail.

- 42 Increasing the bulk mail price **Commercial Information** is likely to result in significant additional costs for private sector businesses and organisations.
- 43 Businesses that face barriers to using digital communications or have customers that choose to receive information by mail may have few alternatives to sending letters for meeting their commercial or social objectives and will have to absorb the cost or pass it on to consumers. Businesses that have access to digital communications as a cost-effective alternative may move away from using mail, which may in turn make it hard for mail-reliant customers to communicate with these businesses.

Impacts on the public sector

- 44 Mail is an enabler of civic engagement and is used by government to provide services. Public sector senders use mail to communicate key information, and in many cases it is required under legislation – for example to verify registration of voters within electorates.
- 45 The public sector currently sends around **Commercial Information** items per year using NZ Post’s bulk mail service at a cost of **Commercial Information**. Based on data provided by NZ Post, some of the largest senders of letters from the public sector include **Commercial Information**
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- 46 Taken in aggregate, the local government sector currently **Commercial Information** ¹⁰ While mail usage by local authorities is decreasing in favour of alternatives, mail is still used for postal voting as the primary voting mechanism in local elections and some councils send rating invoices by post.
- 47 **Commercial Information**
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Investigating a way to ease the transition to NZ Post’s commercial mail service

- 50 Since receiving the Board’s plan I have worked closely with NZ Post to investigate any further ways the Government can ease this transition for all New Zealanders.
- 51 There are two policy approaches that I have considered that might improve the transition to NZ Post’s higher prices for mail users:
 - 51.1 adjusting the timing of NZ Post’s price increases to spread them out over a number of years; or

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- 54 Instead, I have worked with NZ Post to understand the impact that changing the timing of price increases would have on its transition and volume loss in its network.

Proposed policy is to spread the price increases Commercial Information

- 55 NZ Post prepared a range of scenarios outlining different timings for mail price increases, including staggering price increases Commercial Information
- 56 In addition, a scenario that I have considered but not advanced was providing ongoing funding to NZ Post so it did not need to increase the price of mail any more than about \$0.10 per year, as it has been doing recently. Commercial Information

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Commercial Information [Redacted]

57 The approach I am seeking approval for is to spread the necessary mail price increases
Commercial Information [Redacted]. This policy delivers benefits
for postal workers and all postal users by smoothing expected letter volume decline

Commercial Information [Redacted]

58 Commercial Information [Redacted]

Commercial Information [Redacted]

Commercial Information [Redacted]

59 Commercial Information [Redacted]

Commercial Information [Redacted]

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Commercial Information

- 61 A policy decision on this is required now so that NZ Post can have certainty of the price path it can implement Commercial Information and allow the necessary time to announce the price increases it will make in July 2022.
- 62 I am advancing this policy because I think it achieves the best balance of spreading the price increases over a period of time, and the impact of price increases across the range of postal users. Other pricing paths could have had disproportionate impacts on mail users with some experiencing a sharp jump in prices, or could have slowed NZ Post's efforts to make the mail service commercially sustainable.

Benefits of the proposed policy on postal users and postal workers

- 63 This policy I am putting forward has the benefit of reducing the impact on postal users, as well as providing more time to adapt and adjust to the price changes Commercial Information. Specifically, it will provide benefits to:
- 63.1 *Individuals:* Even though individuals only send about Commercial Information per year, I expect that spreading the price increase over a number of years will benefit individuals who pay to send letters.
- 63.2 *The private sector:* Smoothing the price increases Commercial Information is better for business because it reduces the initial July 2022 price increase and should provide advance warning of the later mail price increases. This gives businesses and organisations the ability to either shift to an alternative or plan for ways to absorb or pass on the increased cost of mail. I also note that the additional time for the private sector to transition also allows more time for individuals relying on receipt of mail from these businesses and organisations to adjust.

63.3 *The public sector:* Similar to the benefits in the private sector, spreading price increases **Commercial Information** will avoid a significant increase in postage costs without much warning. This applies to central government and local government.

63.4 **Commercial Information**
[Redacted]

64 From a broader digital economy perspective, this approach provides more time for digital inclusion initiatives to support the uptake of digital communications. There is a range of work already underway to identify opportunities to improve digital inclusion, including the development of a Digital Strategy for Aotearoa. My discussion document, *Towards a Digital Strategy for Aotearoa*, will be in the public domain for consultation this year. This discussion document considers how the Government could look to measures currently in place to assist with the uptake of digital communications, such as providing digital skills training, or other measures to support digital inclusion.

Constitutional conventions
[Redacted]

There are two options for implementing the policy decision

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■ Constitutional conventions [Redacted]

Commercial Information, Free and Frank advice

[Redacted]

■ Commercial Information [Redacted]

75.2 Free and frank opinions [Redacted]
[Redacted]
[Redacted]

75.3 Free and frank opinions [Redacted]
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75.4 Commercial Information Free and frank opinions [Redacted]
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Next steps

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81 Legal professional privilege

Financial Implications

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Constitutional conventions

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Constitutional conventions

Legislative Implications

86 There are no legislative implications from the proposals in this paper.

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Impact Analysis

Regulatory Impact Statement

87 A Regulatory Impact Statement is not required for the proposals in this paper.

Climate Implications of Policy Assessment

88 A Climate Implications of Policy Assessment (CIPA) is not required for the proposals in this paper.

Population Implications

89 The groups that may be affected by NZ Post's proposed changes and the Government has been discussed above **Commercial Information**

90 While maintaining the current mail service and spreading the price increases **Commercial Information** supports the connectivity and communication of older people and disabled people, it is possible that spreading price increases may not help some people on lower or fixed incomes who may not be able to accommodate price increases and will have to reduce the amount of mail they send.

Consultation

91 The Treasury, the Department of Internal Affairs (Digital Inclusion), the Ministry for Primary Industries (Rural Communities), Ministry of Social Development (Office for Seniors, and Office for Disability Issues), Te Kawa Mataaho Public Service Commission, and Ministry for Business, Innovation and Employment (Small Business) have been consulted on this paper. The Department of the Prime Minister and Cabinet has been informed. NZ Post has been informed and has provided certain information.

Proactive Release

92 I will proactively release this paper following an announcement of the Government decision and NZ Post's public notification of mail price increases. The proactive release, when it happens, will be subject to redactions under the Official Information Act 1982. The Ministry of Business, Innovation and Employment will publish a copy on its website.

93 In particular, I note that this paper contains commercially sensitive information from NZ Post that will not be proactively released.

Recommendations

The Minister for the Digital Economy and Communications recommends that the Committee:

1 **note** that New Zealand Post Limited (NZ Post) is party to a Deed of Understanding with the Government that requires NZ Post maintain a nationwide mail network that meets specified minimum service requirements relating to frequency of delivery (rural and urban), number of delivery points, and number of customer-facing service locations, and that NZ Post must allow other mail operators to access its mail network;

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2 **note** that in Budget 2020, \$130 million was allocated to Vote Business, Science and Innovation to maintain the social benefits associated with mail services such as connectivity and civic engagement and address a revenue gap so that NZ Post’s mail delivery service obligations may be maintained, over a transitional period of three years [CAB-20-MIN-0155.05 refers];

3 Commercial Information [Redacted]

4 Commercial Information [Redacted]

5 **endorse** NZ Post moving to a pricing approach that will allow its mail business to be commercially sustainable in the future;

6 **note** that a policy of smoothing the necessary mail price increases Commercial Information is expected to deliver benefits for postal users and postal workers;

7 Commercial Information [Redacted]

8 **agree** to the policy of smoothing the necessary price increases Commercial Information

9 **agree** to:

EITHER

Constitutional conventions [Redacted]

OR

9.2 **agree** to

9.2.1 ask NZ Post to smooth the price increases Commercial Information and

9.2.2 provide NZ Post with a ministerial letter of comfort [redacted]
Constitutional conventions [redacted]
[redacted]

10 Constitutional conventions [redacted]
[redacted]

11 **note** that mail price increases by NZ Post will likely increase the cost of postage services used by the public sector. Commercial Information [redacted]
[redacted] Constitutional conventions [redacted]
[redacted]
[redacted]

12 **note** that I will proactively release this paper, subject to any redactions, following an announcement of the Government decision and NZ Post’s public notification of mail price increases.

Authorised for lodgement

Hon Dr David Clark

Minister for the Digital Economy and Communications