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SENATOR THE HON KATY GALLAGHER
Minister for Finance

THE HON MICHELLE ROWLAND MP
Minister for Communications

Mr Lucio Di Bartolomeo
Chair
Australia Post
GPO Box 1777
MELBOURNE VIC 3002

Dear Mr Di Bartolomeo

We are writing in relation to Australia Post's remuneration and performance bonus payment framework, and to ask that Australia Post support an improved governance and accountability framework for remuneration arrangements, particularly as they relate to performance bonuses.

We note that the Australian Public Service Commission released the *Performance Bonus Guidance: Principles governing performance bonus use in Commonwealth entities and companies* on 13 August 2021 and that Australia Post provides details of performance bonus for senior executives in its Annual Report, consistent with the requirements under the *Public Governance, Performance and Accountability Rule 2014*.

We also note that the Australia Post Board has considered this guidance in designing its 2021-22 and 2022-23 remuneration frameworks and has decided to retain its variable remuneration framework.

We appreciate that executive and workforce remuneration is a matter for the Board, and a complex one, with the need to balance the Government's expectations to exercise restraint with regard to performance pay, with delivering on Australia Post's commercial strategy through the attraction and retention of high-calibre staff and leaders. However, we are seeking information from a number of GBEs in relation to the application of the Performance Bonus Guidance, and would like to better understand the basis for the Board's decision on remuneration, including governance arrangements.

To provide greater transparency and rigour in remuneration and performance bonuses, and in keeping with community expectations, we ask that Australia Post:

- advise us of the rationale for remuneration policy decisions made to date, including the retention of the variable remuneration framework;
- provide us with external, independent benchmarking analysis in support of these decisions or, where not already available, undertake an external, independent benchmarking analysis, with respect to remuneration arrangements, including an assessment of whether the remaining targets are appropriate to incentivise performance, including:

- whether the balance between individual and corporate key performance indicators is appropriate; and
 - whether targets are appropriately weighted within the context of Australia Post's strategic priorities, key risks and strategy to improve stakeholder engagement;
- provide forward-looking advice on how there could be greater independent assurance that bonuses are linked to appropriate performance targets, and confidence that bonuses reward performance that exceeds business as usual; and
- where independent benchmarking has been undertaken, share with us that advice and outline the Board's rationale for any proposed performance pay;
- outline the detail of the governance arrangements and the basis on which performance targets are set and measured, and how risks are being managed;
- advice on how Australia Post's performance bonus framework can be improved; and
- identify opportunities to improve transparency in Australia Post's public reporting.

Thank you for your engagement on this matter, and we look forward to your prompt response within the next six weeks.

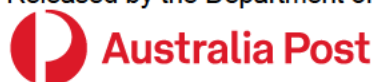
Yours sincerely

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Katy Gallagher
Minister for Finance

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Michelle Rowland
Minister for Communications



4 November 2022

Hon Michelle Rowland MP
Minister for Communications
Parliament House
CANBERRA ACT 2600
By email

Senator the Hon Katy Gallagher
Minister for Finance
Parliament House
CANBERRA ACT 2600
By email

Dear Ministers

Remuneration Arrangements

Thank you for your letter received 27 October 2022, regarding Australia Post's remuneration arrangements.

I note that you are seeking information from a number of GBEs in relation to the application of the APSC Guidance and would like to better understand the basis for the Board's decisions on remuneration, including governance arrangements.

I acknowledge receipt of your letter on behalf of Australia Post and confirm that your requests are being carefully considered, so that a prompt response can be provided.

Should you or your respective offices or Departments have any queries in the meantime, Australia Post representatives are available to assist.

Sincerely

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Lucio Di Bartolomeo
Chair
Australia Post

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9 December 2022

Hon Michelle Rowland MP
Minister for Communications
Parliament House
CANBERRA ACT 2600

Senator the Hon Katy Gallagher
Minister for Finance
Parliament House
CANBERRA ACT 2600

Dear Ministers

Remuneration Arrangements

Thank you for letter dated 27 October 2022, addressed to Mr Lucio Di Bartolomeo in his capacity as Chair of Australia Post. Further to Mr Di Bartolomeo's acknowledgment letter dated 4 November 2022, Australia Post has carefully considered your requests and I am pleased to now respond on the Board's behalf.

Australia Post appreciates the opportunity to provide you with information regarding our application of the "*Performance Bonus Guidance - principles governing performance bonus use in Commonwealth entities and companies*" (**Guidance**), the basis for the Board's recent decisions on variable remuneration (**VR**), and our associated governance arrangements. We also appreciated the opportunity to provide feedback to the APSC on the draft Guidance principles and an assessment of how our VR frameworks and governance practices sat against those principles. We have a strong and positive professional relationship with the APSC.

This letter is structured to respond to your requests as summarised in the headings below. It includes copies of, or links to, materials that you requested as well as some additional supporting materials.

Rationale for remuneration policy decisions, including retention of VR framework

Australia Post's 2022 [Annual Report](#) contains a detailed Remuneration Report which sets out extensive information regarding Australia Post's performance and remuneration frameworks. It covers remuneration governance, remuneration principles, remuneration structure and the linking of strategy, performance and remuneration.

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It contains prescribed reporting – required under the Public Governance, Performance and Accountability Rule 2014 (**PGPA Rule**) – on the remuneration of Non-executive Directors, senior executives, and other highly paid staff. It addresses the rationale for remuneration policy decisions, including (at page 84) the use of VR.

Noting that rationale, and weighing up the following factors, the Board believes the most appropriate use of public resources is to retain the current VR framework:

- Australia Post has an obligation to deliver public outcomes and demonstrate the appropriate use of public funds.
- Australia Post operates an extremely complex business that has evolved significantly in recent years through the growth in eCommerce, accelerated letter decline and ever-increasing competition. This includes generating 80% of its revenue and all of its profits in highly competitive global markets where it competes against a number of the largest and most innovative companies in the world (including Amazon and DHL).
- To ensure Australia Post continues to meet its strategic objectives, it must hire the most experienced and capable employees from competitive and constrained talent pools and incentivise them to successfully compete in these markets.

The Board considered alternative remuneration frameworks, when deciding the FY23 VR design – including the partial conversion of the existing VR arrangements, for some eligible participants, to fixed remuneration. However, this approach was discounted as it would limit the enterprise's ability to drive performance through at-risk performance-based remuneration and create a significant fixed remuneration cost increase in ongoing enterprise costs.

Benchmarking analysis

The Remuneration Report outlines (at pages 82–84 of the Annual Report) Australia Post's remuneration structure for contract level team members, including fixed annual remuneration (**FAR**) and VR. To inform Australia Post in setting market competitive and sustainable remuneration budgets and ensure team members are being rewarded fairly and equitably for their roles, remuneration is regularly benchmarked to multiple sources of information including external market surveys purchased from third party providers (including Aon, Korn Ferry and KPMG).

Australia Post also obtains external advice and benchmarking analysis to inform the Board's decision making regarding FAR and VR arrangements, particularly for the GCEO&MD and senior executives. Recent advice includes:

- PwC (16 July 2021) – external executive remuneration benchmarking data, as part of the 2021 annual remuneration review (Attachment 1); and
- Mercer (23 August 2021) and PwC (10 September 2021) – market practice data and analysis of KPI selection, target setting approaches and VR outcome observations across a range of comparator organisations (Attachments 2–3);
- KPMG (July 2022) – external executive remuneration benchmarking data, as part of the 2022 annual remuneration review (Attachments 4–5); and

- SW Corporate (August 2022) – additional external remuneration advice to the Nomination & Remuneration Committee (**NRC**) regarding the FY23 enterprise scorecard framework, VR design and remuneration review for GCEO&MD and senior executives (Attachment 6).

Further to the commentary set out in the Annual Report, and supported by benchmarking analysis, the Board considers that Australia Post's remuneration framework for contract level team members, and targets set, are appropriate to incentivise performance. The Board also considers that the balance between individual and corporate key performance indicators is appropriate; and that targets are appropriately weighted within the context of Australia Post's strategic priorities, key risks and strategy to improve stakeholder engagement.

Opportunities for additional independent assurance

The Board, through its NRC, has recently identified and acted on an opportunity to enhance independent assurance that VR is linked to appropriate performance targets, and provide confidence that VR rewards performance that exceeds business as usual.

Under the authority provided by its Charter, the NRC recently appointed SW Corporate as an independent remuneration adviser to assist with its decision making on remuneration matters. As noted above, SW Corporate advised the NRC on the FY23 enterprise scorecard framework, VR design and remuneration review for GCEO&MD and senior executives. The NRC is planning to engage SW Corporate (or another suitable adviser), to provide ongoing external independent advice on performance and remuneration frameworks, including remuneration benchmarking.

Independent benchmarking

Information regarding benchmarking analysis undertaken by Australia Post is provided above.

Governance arrangements

The Remuneration Report outlines remuneration governance arrangements and remuneration principles (at pages 80–81 of the Annual Report) and the linking of strategy, performance and remuneration (at pages 85–88). The risk of strategy and performance objectives not being achieved is directly reflected in the at-risk nature of VR, and the targets set in enterprise and individual scorecards. The remuneration principles are designed to manage the risks associated with attracting and retaining a skilled workforce, as Australia Post operates (and competes for talent) in highly competitive commercial markets.

Further detail is set out in Australia Post's Board approved Group Remuneration Policy (Attachment 7).

Opportunities to improve VR framework

Australia Post will continue to review and enhance its VR framework to ensure that it supports the strategic objectives of the enterprise, drives performance, and remains aligned to market practice and community expectations. In FY 24, we intend to further align enterprise and individual targets to the enterprise strategy as reflected in our Corporate Plan – across all contract level team members.

The Board, through the NRC, will also consider opportunities for improvement that arise from external independent remuneration advice on performance and remuneration frameworks, including remuneration benchmarking (as referred to above).

Opportunities to improve transparency

There is already a high level of transparency in Australia Post's public reporting through the Remuneration Report. This report discloses Enterprise Scorecard KPIs and senior executive remuneration outcomes, and is published within the Annual Report, following the end of the reporting period. This is considered best practice from a commercial market perspective and meets (or exceeds) the significant disclosure requirements under the PGPA Rule. The Annual Report is published on the Australia Post website and its contents are available through the Government's Transparency Portal.

Additionally, there is disclosure to Shareholder Ministers, through the Corporate Plan, of quantitative enterprise KPIs for FY23. (These KPIs are reflected as applicable in performance scorecards of senior executives.) These KPIs and their targets are considered commercial-in-confidence, and provide Shareholder Ministers with fundamental information about Australia Post's targeted performance.

Opportunities to increase transparency in Australia Post's reporting could include:

- public disclosure of Australia Post's Group Remuneration Policy, and periodic updates, following Board approval;
- public disclosure of the senior executive remuneration structure, following Board approval (remuneration outcomes including structure are currently disclosed in the Remuneration Report following the end of the reporting period);
- disclosure to Shareholder Ministers of Australia Post's Variable Remuneration Plan Rules, and periodic updates, following Board approval; and
- disclosure to Shareholder Ministers of external remuneration benchmarking reports (in respect of senior executives), following remuneration reviews.

Should you or your respective offices or Departments require any further information, please do not hesitate to contact me or Mr Nick Macdonald, Corporate Secretary.

Sincerely

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Andrea Staines
Chair (Acting)
Australia Post

encl. Attachments referred to in letter