

COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

Senate

Environment and Communications Legislation Committee

Estimates

Tuesday, 25 February 2014

Canberra

BY AUTHORITY OF THE SENATE

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Senate

Environment and Communications Legislation Committee

Tuesday, 25 February 2014

**Members in attendance:** Senators Boswell, Cameron, Conroy, Fawcett, Ludlam, McKenzie, O'Neill, O'Sullivan, Pratt, Ruston, Seselja, Smith, Urquhart, Whish-Wilson, Williams, Xenophon.

COMMUNICATIONS PORTFOLIO

**In Attendance**

Senator the Hon. Mitch Fifield, Assistant Minister for Social Services

**Department of Communications**

**Management and Accountability**

Mr Drew Clarke, Secretary

Mr Abul Rizvi, Deputy Secretary

Mr Ian Robinson, Deputy Secretary

Ms Nerida O'Loughlin, Deputy Secretary

**Program 1.1 –Broadband and Communications Infrastructure**

Mr Ian Robinson, Deputy Secretary

Mr Mark Heazlett, First Assistant Secretary, Telecommunications Division

**Program 1.2 – Telecommunications, Online and Postal Services**

Mr Abul Rizvi, Deputy Secretary

Mr Keith Besgrove, First Assistant Secretary, Digital Services Division

**Program 1.3 - Broadcasting and Digital Television**

Ms Nerida O'Loughlin, Deputy Secretary

Dr Simon Pelling, First Assistant Secretary, Broadcasting Division

Ms Marianne Cullen, First Assistant Secretary, Digital Switchover and Corporate Plan Project

**Corporate**

Mr Simon Ash, First Assistant Secretary, Corporate

**Australian Broadcasting Corporation**

Mr Mark Scott, Managing Director

Mr David Pendleton, Chief Operating Operator and Chief Financial Officer

Mr Michael Millett, Director Corporate Affairs

**Australian Postal Corporation**

Mr Ahmed Fahour, Managing Director and Chief Executive Officer

Mr Paul Burke, Corporate Secretary

Ms Christine Corbett, Executive General Manager, Retail and Consumer

Mr Chris Blake, Executive General Manager, Corporate Affairs and People

Ms Catherine Walsh, General Manager, Human Resources

**Special Broadcasting Service Corporation**

Mr Michael Ebeid, Managing Director

Mr Peter Khalil, Director Corporate Affairs Strategy and Communications

**Australian Communications and Media Authority**

Mr Chris Chapman, Chair

Mr Chris Cheah, Full-Time Authority Member

Mr Richard Bean, Deputy Chair

Mr Giles Tanner, General Manager, Digital Economy Division

Mr Christopher Hose, Executive Manager, Spectrum Planning and Engineering Branch

Ms Maureen Cahill, General Manager, Communications Infrastructure Division

Ms Jennifer McNeill, General Manager, Content, Consumer and Citizen Division

Mr Brendan Byrne, General Manager, Legal Services Division

Mr Carsten Larsen, Acting General Manager, Corporate Services and Coordination Division

Mr Tony Allen, Chief Financial Officer/Executive Manager, Finance and Facilities Branch

**NBN Co Limited**

Dr Ziggy Switkowski, Executive Chairman

Mr Kevin Brown, Head of Corporate and Commercial

Mr Robin Payne, Chief Financial Officer

Mr John Simon, Head of Product and Sales

Committee met at 09:00

CHAIR (Senator Williams): Good morning, everyone. I declare open this hearing of the Senate Environment and Communications Legislation Committee. The Senate has referred to the committee the particulars of proposed expenditure for 2013-14 for the portfolios of Environment and Communications. The committee may also examine any report of the departments and agencies appearing before it. The committee has set Friday, 11 April 2014 as the date by which answers to questions on notice are to be returned. Today we will examine the department and agencies of the Communications portfolio.

Under standing order 26, the committee must take all evidence in public session. This includes answers to questions on notice. Officers and senators are familiar with the rules of the Senate governing estimates hearings. If you need assistance, the secretariat has copies of the rules. In particular, I draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised, and which I now incorporate in *Hansard*.

*The extract read as follows—*

**Public interest immunity claims**

That the Senate—

(a) notes that ministers and officers have continued to refuse to provide information to Senate committees without properly raising claims of public interest immunity as required by past resolutions of the Senate;

(b) reaffirms the principles of past resolutions of the Senate by this order, to provide ministers and officers with guidance as to the proper process for raising public interest immunity claims and to consolidate those past resolutions of the Senate;

(c) orders that the following operate as an order of continuing effect:

(1) If:

(a) a Senate committee, or a senator in the course of proceedings of a committee, requests information or a document from a Commonwealth department or agency; and

(b) an officer of the department or agency to whom the request is directed believes that it may not be in the public interest to disclose the information or document to the committee, the officer shall state to the committee the ground on which the officer believes that it may not be in the public interest to disclose the information or document to the committee, and specify the harm to the public interest that could result from the disclosure of the information or document.

(2) If, after receiving the officer’s statement under paragraph (1), the committee or the senator requests the officer to refer the question of the disclosure of the information or document to a responsible minister, the officer shall refer that question to the minister.

(3) If a minister, on a reference by an officer under paragraph (2), concludes that it would not be in the public interest to disclose the information or document to the committee, the minister shall provide to the committee a statement of the ground for that conclusion, specifying the harm to the public interest that could result from the disclosure of the information or document.

(4) A minister, in a statement under paragraph (3), shall indicate whether the harm to the public interest that could result from the disclosure of the information or document to the committee could result only from the publication of the information or document by the committee, or could result, equally or in part, from the disclosure of the information or document to the committee as in camera evidence.

(5) If, after considering a statement by a minister provided under paragraph (3), the committee concludes that the statement does not sufficiently justify the withholding of the information or document from the committee, the committee shall report the matter to the Senate.

(6) A decision by a committee not to report a matter to the Senate under paragraph (5) does not prevent a senator from raising the matter in the Senate in accordance with other procedures of the Senate.

(7) A statement that information or a document is not published, or is confidential, or consists of advice to, or internal deliberations of, government, in the absence of specification of the harm to the public interest that could result from the disclosure of the information or document, is not a statement that meets the requirements of paragraph (1) or (4).

(8) If a minister concludes that a statement under paragraph (3) should more appropriately be made by the head of an agency, by reason of the independence of that agency from ministerial direction or control, the minister shall inform the committee of that conclusion and the reason for that conclusion, and shall refer the matter to the head of the agency, who shall then be required to provide a statement in accordance with paragraph (3).

(d) requires the Procedure Committee to review the operation of this order and report to the Senate by 20 August 2009.

(*13 May 2009 J.1941*)

(Extract, Senate Standing Orders, pp 124-125)

[9:00]

Department of Communications

CHAIR: I welcome Senator the Hon. Mitch Fifield, Assistant Minister for Social Services, representing the Minister for Communications, and portfolio officers. Minister, would you like to make an opening statement?

Senator Fifield: No, thank you.

CHAIR: Mr Clarke, would you like to make an opening statement?

Mr Clarke: No statement, thank you.

CHAIR: I will now invite questions. Senator Urquhart.

Senator URQUHART: Good morning. At supplementary estimates in November, the department advised it had not been provided with the methodology for calculating the cost to industry of the regulation administered by the department. Has that methodology been provided to the department now?

Mr Clarke: I will ask Ms O'Loughlin to come to the table and respond to that.

Ms O'Loughlin: We are proceeding on using the business cost calculator process as the methodology for doing the costings for the dereg. agenda at this stage. We have a methodology that we are using to cost proposals, as required under the deregulation policy.

Senator URQUHART: Will the department be able to complete the task of costing regulation by September, consistent with the government's commitment for this to be completed in 12 months?

Ms O'Loughlin: The audit process for our costing of all regulation is to be completed this year, and we are confident that we will compete at this year.

Senator URQUHART: By September, do you think?

Ms O'Loughlin: I think we are pretty well progressed, so that would be our aim. We have been given 12 months to do it so we will progress within that.

Senator URQUHART: How many people are directly employed in the deregulation activity in the department?

Ms O'Loughlin: The deregulation unit is headed by an SES officer and has a couple of other full-time people in it. But, as I think we explained last time, we are really managing the deregulation agenda right across the department. Most of the line areas in the department will have some people working on the dereg. agenda as part of their normal jobs. It may be a percentage of that job. It is a major task but it is well spread across the department.

Senator URQUHART: So, effectively, there are three full-time equivalents and then others?

Ms O'Loughlin: That is about right, Senator.

Senator URQUHART: The minister has indicated that submissions on deregulation will be made available. When will they be placed on the department's website?

Ms O'Loughlin: We are expecting that they will be placed on the website sometime next week. Originally, when the minister wrote to various organisations, we had not indicated that they would be made public. So we have had to go back to each of those submitters and make sure that they are comfortable with those submissions being made public. We are just finalising that task at the moment.

Senator URQUHART: The government has announced that it will conduct its initial deregulation day in March. Will items for the Communications portfolio generate any actual savings for industry?

Ms O'Loughlin: The final proposals for repeal day 1 have not been approved at this point, but we certainly are looking at a range of proposals that may possibly be removed in March, and we are investigating what sorts of savings they would have for industry.

Senator URQUHART: The coalition's policy for the digital economy released before the election states:

If elected, the Coalition will update the NDES during its first term of government. Such an update will include a greater focus on presenting an integrated view across the different tiers of government …

Has the department prepared a timetable for preparing the update?

Mr Clarke: As you quoted, the reference was to the first term, which is obviously a fairly wide period. We have started thinking about what that might look like but have not yet confirmed an actual time line with the minister, I believe. I will ask Mr Rizvi to respond.

Mr Rizvi: That is correct. We are in the process of pulling together options on how that time line might be established and how the process might work. We are in consultation with the minister on that, but nothing yet has been finalised.

Senator URQUHART: Has the department instituted any processes to establish an integrated view across the different tiers of government?

Mr Clarke: Yes.

Senator URQUHART: What are they?

Mr Clarke: My answer is: at a high level, in that the opportunity afforded to us by that election commitment is to look more widely and deeply and build on the policy statement of the previous government. So our initial focus has been on implementing the precise election commitments of the incoming government, and then we are going to move through to what that would look like for an update of the NDES. But in doing the implementation of the election commitments, that necessarily takes us down to a closer engagement with our colleagues in Finance and other parts of the service

Senator URQUHART: Do you have a time frame for how that is tracking and where it will end up in terms of the length of time?

Mr Clarke: In terms of an update to the NDES, as Mr Rizvi has said, no. We are still mapping out the implementation of the specific election commitments in the government’s e-government policy statement. The NDES update is a medium-term first-term project, and the minister has not yet made a decision as to where that will fit over the three-year period.

Senator URQUHART: How many staff are currently engaged in the Digital Economy Branch?

Mr Rizvi: I do not think we have a Digital Economy Branch anymore. You may be referring to the E-government Branch, which has—and I will need to take this on notice—fewer than 10 staff.

Senator URQUHART: So there are about three full-time equivalents, plus others who are brought in, involved in the deregulation and about 10 in the E-government Branch.

Mr Clarke: May I clarify? Your summary, of course, reflects accurately the answers you have received but, as I think Ms O’Loughlin and Mr Rizvi would attest, they are the people working the issues at the centre. Much of the department is involved in the deregulation agenda. All of the policy areas in broadcasting, communications and telecommunications are deeply involved in the dereg. agenda and, similarly, much of the work in digital economy works through our programs and other policy areas. So the numbers we have given you are, if you like, at the centre of those processes. They do not represent the totality.

Senator URQUHART: I understand that, because it is broader, as Ms O'Loughlin said. It goes across other people who spend a percentage of their time working in that area. Which of the two activities would have a greater impact on the future economic prosperity of Australia?

Mr Clarke: I do not think we could answer that question. It is an interesting strategic question in terms of the agenda, but I do not think we have sufficient evidence to give a robust answer to that at this stage. They both have the potential. Executed well, I think both could have a profound impact. But I would be loath to attempt to relatively quantify them at this stage.

Senator URQUHART: Is there a stage when you may be able to quantify that?

Mr Clarke: I think it is the kind of research question that the department should be able to answer, frankly—to have an understanding of the impact of these sorts of policy-driven agendas, in the one case, and market driven agendas, in the other case, to understand the impact. Yes, I would like to be able to give you a robust answer. The focus that I am trying to develop in the department now to strengthen our strategic research capacity would be designed to be able to give you a good answer to that sort of question.

Senator URQUHART: Maybe I will ask you again next estimates.

Mr Clarke: I think it is an excellent question and I would like to be able to give you a good answer.

Senator URQUHART: How many staff are currently employed in the department?

Mr Clarke: There are of course many ways to count staff. But a working number would be 510.

Senator URQUHART: How many do you expect to be employed at 30 June 2014?

Mr Clarke: I do not have a precise number for 30 June 2014 at this stage but it will be fewer. Forward estimates lock in a significant reduction as a function of both terminating programs and accumulated efficiency dividends. The actual impact on that number of 30 June 2014 I cannot state at this time. But it will be fewer.

Senator URQUHART: You said that it will be significantly less. I know what my definition of ‘significant’ is, and I understand your reluctance to put specific numbers on it, given that we are talking about people's jobs. Is ‘significant’ in the hundreds?

Mr Clarke: I cannot be more precise at this stage.

Senator URQUHART: How do you expect to achieve that reduction in staff?

Mr Clarke: To get to the number we are at today—the low 500s—we have done a number of things. We have implemented a department-wide voluntary redundancy program and we have implemented, as has the service generally, very tight restrictions on external recruitment. It is virtually zero. And we are managing very carefully our contract and non-ongoing staff, with a view to letting their contracts terminate and only renewing them under exceptional circumstances. That process has already yielded around 100 reductions over the last eight or nine months. That is a net reduction over that period. The next stage will be a lot harder, and I will actually be talking to my staff about that process within the next week. We are just finalising that process now. If you will forgive me, I would rather not pre-empt that discussion in this hearing.

Senator URQUHART: So that 510, is that counting the contract and non-ongoing? Is it a complete picture?

Mr Clarke: It includes the non-ongoing but not contract. I do make this distinction between where we have contracted out service. Much of our IT is not in that number. But, where we have appointed people to do core department work, they are included in those numbers.

Senator URQUHART: Is there any overlap of functions between the department and the ACMA?

Mr Clarke: ‘Overlap’ is a loaded term. There are many subject matters on which we both have roles. There are many subject matters where the department has primarily a policy role and the ACMA primarily a regulatory role. So we talk about where those boundaries are as a regular process. There are common themes but not duplication. Where overlapping sits in that frame—

Senator URQUHART: Would there be any staff efficiencies that could be gained by reviewing those roles performed in the department and in the authority?

Mr Clarke: Only to the extent that they are duplicative. If they are roles that have to be done then the question is: where are they most efficiently and effectively done? But it is only removal of duplication or better ways of doing them that will yield efficiencies.

Senator URQUHART: If I understood what you said, there is really not that duplication there.

Mr Clarke: We are not doing the same thing in both places.

Senator URQUHART: I note that the department has just advertised the position of chief economist, is that correct?

Mr Clarke: Yes.

Senator URQUHART: Can you provide more information on what the role of the chief economist will be?

Mr Clarke: Certainly. The position was advertised on Friday last week and also had an international development by posting it in the *Economist* online, which is the sort of market we are interested in. This actually relates to your question about the relative economic impact of two major policy themes. My intent is to recruit a chief economist to lead a new bureau of communications research within the department. The department has in previous years had a dedicated economic research unit and I am going to re-establish that. The chief economist position is quite possibly the only position that we will be recruiting for externally, but it is the leadership position to come in.

My expectation is that the balance of the bureau will be staffed by transferring existing Department of Communications staff into that area. So my contention is that by focusing, centralising if you like, a proportion of our strategic policy research we will get a sharper product rather than where it is now—that is, diffused across the department. The chief economist job is to lead the establishment of that, provide the professional quality assurance on that economic analysis that it produces and sign off on the publications that will come from the bureau.

Senator URQUHART: The advertisement for the position said:

The Bureau of Communications Research has been created as a professionally independent unit within the Department to contribute to strengthening and maintaining the Department’s strategic policy capability.

You talked about transferring existing employees. How many staff would that be in that new bureau?

Mr Clarke: We think 20 is the minimal sustainable size for this sort of function. How much more than 20 we can manage will be a process of ensuring that I have sufficient resources on the more immediate priorities of government in the various implementation tasks that we are doing. Somewhere in the twenties would be a reasonable estimate.

Senator URQUHART: They would possibly come out of some of the other areas where there might be a reduction from the 510?

Mr Clarke: No. The bureau staffing will be included in the department's budget. It will not have a separate line. It will be a reallocation or reprioritisation.

Senator URQUHART: Did the ACMA replace Rebecca Burdon after she left the role of the chief economist?

Mr Clarke: You will have to ask my ACMA colleagues, who I think are next up.

Senator URQUHART: Does the economic group in the ACCC undertake any of the economic research envisaged for the new chief economist?

Mr Clarke: The thrust of your question is important in that you are implicitly pointing out that other agencies in the portfolio already undertake research in the communications market place, which is clearly true. The ACMA does and the ACCC does. Indeed, there are many bodies that do it, both public and private. The extent to which the product of the new bureau is original research done by them, versus analysis, synthesis and interpretation of work done by others is a question that the chief economist is going to have to work through. I certainly think that a material proportion of the output of the bureau will be drawing on the research done by other public and private sector bodies.

Senator URQUHART: I am advised that the previous communication research unit in the department was a highly valued unit until the day it published research about line fees that conflicted with the government's policy position. Have you provided any specific thought to how the new bureau can be encouraged to engage with the communications research and analysis community without being constrained to being a mouthpiece for established policy?

Mr Clarke: Yes. I am very conscious of that risk in these areas. I have established an analogous bureau in another portfolio and, of course, there are several such bureaus around this town. So that fine line between professional independence and respect in the market is one that I am very conscious of.

Senator RUSTON: I would like to ask you about the best practice regulation reports of 2012 and 2013. Those reports show that the department made an exceptional circumstances claim for not doing a regulatory impact statement with regards to the convergence review. Specifically, it states:

A range of measures including the introduction of Australian content requirements; a decision not to issue spectrum or broadcast licenses for a fourth free-to-air television network; and the repeal of the “75 per cent reach rule”.

Also the extension of the Telstra retail price controls to June 2014 and in relation to the problem gambling initiative. What were the circumstances that led to the request and the granting of exceptional circumstances in relation to not doing a regulatory impact statement?

Mr Clarke: I don't think we are going to be able to give you a comprehensive answer from the floor. But your question is, what was the basis of the request?

Senator RUSTON: Yes. What were the circumstances that led up to applying exceptional circumstances to not doing a regulatory impact statement in relation to that.

Mr Clarke: When you say 'circumstances' do you mean, what was the basis of the claim?

Senator RUSTON: Yes. What was that basis and the justification for the decision? I suppose it would be interesting to know, had you been required to do a regulatory impact statement, what kind of level of work and resources would have needed to be applied to it. Further to that, did the department have a view of what the likely impact would have been had you actually undertaken it? This may all play out in the reasons why you actually chose to seek that in the first place.

Mr Clarke: We can possibly give you a partial answer now, which I will ask Mr Rizvi to respond to. But I think the bulk of your question will need to be taken on notice.

Mr Rizvi: In respect to the IGA review, we were in close contact with the Office of Best Practice Regulation on the conduct of that review. The intention was that, to the extent that the government may have decided to proceed with the recommendations to modify the IGA, then a comprehensive regulation impact statement would have been developed. As it turned out, the previous government did not proceed to modify the act as a result of that review. As a result, a regulation impact statement was not required.

Senator RUSTON: I will be interested in your detailed response. Okay. I am being wound up by the Chair.

CHAIR: Thank you, Senator Ruston.

Senator RUSTON: I have a number of questions I would like to put on notice also.

CHAIR: You are welcome to do that. I now call officers from the Australian Communications and Media Authority.

Australian Communications and Media Authority

[9.23]

CHAIR: Welcome. Mr Chapman, would you like to make an opening statement?

Mr Chapman: No, thank you. I am joined by my deputy chair, Mr Richard Bean and my five general managers.

CHAIR: How many?

Mr Chapman: Five general managers.

CHAIR: You are lucky.

Mr Chapman: I do not have a CEO or two deputy CEOs, Chair. We have, as you are aware, a very wide portfolio and the relevant GMs have a very good feel for the subject matter involved.

CHAIR: Very good. Senator Urquhart.

Senator URQUHART: Thank you, Mr Chapman. Could you please outline the important role the ACMA plays in enforcing content standards in the broadcasting sector?

Ms McNeill: The ACMA has a role in enforcing both provisions of the act and broadcasting standards made under the act as well as industry codes of practice. Typically, if a citizen has a concern about compliance with the act or compliance with the standard, they can raise that concern directly with the ACMA. But where a code of practice is concerned, the person should complain first to the broadcaster involved and then, if the broadcaster does not give them a satisfactory response of does not respond within 60 days, they can raise that concern with the ACMA and we will investigate that.

Senator URQUHART: Does the ACMA investigate commercial broadcasters for breaching licence conditions and for breaches of the industry code of practice?

Ms McNeill: It does.

Senator URQUHART: How many investigations did the ACMA instigate into broadcasts by Ray Hadley in 2013?

Ms McNeill: I do not have those figures to hand. I can say that in the last financial year we conducted a total of 212 broadcasting investigations, and that was into all of the broadcasting sectors.

Senator URQUHART: I understand that there were three that were instigated into broadcasts by Ray Hadley. What were these investigations into? Can you give as a bit of detail about those?

Ms McNeill: We did conduct last year a number of investigations into the compliance of Harbour Radio, which is the licensee who broadcasts Mr Hadley's show. Some of those resulted in breach findings and some resulted in no breach findings. Typically, they raised concerns about accuracy, of complaints handling and of compliance with decency standards. I am not sure if there was an investigation which concerned provocation of intense dislike on particular grounds, but in the past we have investigated that licensee for compliance with those provisions in the code.

Senator URQUHART: How many investigations did the ACMA instigate into broadcast by Alan Jones in 2013?

Ms McNeill: Again, I do not have those figures to hand. But we would regard that as an investigation, again, against the licensee rather than against Mr Jones or any particular personality or presenter.

Senator URQUHART: Okay. Well, I understand that there are about 10 into that. Again, what were those investigations into?

Ms McNeill: Typically the same suites of issues. Again, my memory is that there was a combination of breach and non-breach findings.

Senator URQUHART: Are you able to provide on notice a little bit more detail about both of those?

Ms McNeill: I am happy to give you that.

Senator URQUHART: That would be great, thank you. In relation to the ABC and SBS, does the ACMA have the same role in investigating breaches of the codes?

Ms McNeill: It has a very similar role, yes.

Senator URQUHART: Similar? How does it differ?

Ms McNeill: There is a construct, which contemplates that if an audience is concerned about compliance with one of the codes of practice which the national broadcasters have, they should pursue that first with the national broadcaster involved and then, in the event that they do not get a satisfactory response or no response within 60 days they can pursue their concerns with us. We would then have a similar investigative process where we formed a view on whether the relevant code provisions have been breached. But at the back end the options available to the ACMA are different in the event that there is a breach found.

Senator URQUHART: How many investigations did the ACMA instigate into broadcasts by ABC radio in 2013?

Ms McNeill: I do have those figures for the financial years but not by calendar year. In the 2012-13 financial year we opened 57 investigations into the ABC's compliance with codes of the act. In 2013-14, to date we have opened 29 investigations.

Senator URQUHART: Would you be able to break that down into 2013 and provide some further information on that on notice as well?

Ms McNeill: I would, yes.

Senator URQUHART: And what were those investigations into?

Ms McNeill: Again, a full gamut of matters. Some of them concerned captioning, some concern accuracy, some concern complaints about impartiality and there is some concern about harm and offence. There is a provision in the ABC code dealing with harm and offence. It is a full range of matters.

Senator URQUHART: Again, if you could provide a bit more detail on notice, that would be great. Do the same processes apply in relation to television broadcasting as they do for radio?

Ms McNeill: Yes.

Senator URQUHART: In an interview with the Prime Minister on the air on 29 January, Ray Hadley referred to the issue of allegations about treatment of asylum seekers. He said:

You know, some person makes a spurious complaint against me and they fall over themselves to investigate me. You know and they find against me that I didn’t declare this and I didn’t declare that. I’m an honest, decent person yet these blokes and these women get away with this on a daily basis and no one holds them accountable.

Is it incorrect to say that the ACMA is investigating Mr Jones and Mr Hadley while not investigating the ABC?

Mr Chapman: That is incorrect.

Senator URQUHART: Does the ACMA investigate complaints about the ABC the same way it investigates complaints about the commercial broadcasters?

Mr Chapman: Yes, it does.

Senator URQUHART: In response to Mr Hadley, the Prime Minister said:

Look, I can understand your frustration, Ray because at times there seems to be a double standard in large swaths of our national life and I can understand the frustration that you feel.

So the Prime Minister was implying there was double standards in the operation. On the basis of your evidence that the ACMA investigates complaints about the ABC the same way it investigates complaints about commercial broadcasters, is the Prime Minister wrong to claim there are double standards.

Senator Fifield: I might just interpose there.

Senator URQUHART: I thought you might, Minister.

Senator Fifield: From my reading, the Prime Minister was simply empathising with broadcasters who have a range of people commenting on their contributions to the airwaves. I do not think he was reflecting on any regulatory bodies.

Senator URQUHART: So you do not think that because he said there were double standards that he feels that he was getting double standards?

Senator Fifield: As I say, I do not think he was reflecting on any regulatory bodies.

Senator URQUHART: You do not think.

Senator Fifield: I said that I do not think that the Prime Minister was reflecting on any regulatory bodies.

Senator URQUHART: In relation to the broadcasts about allegations of the treatment of boat arrivals, concerned citizens can complain to the ABC and if not satisfied can complain to the ACMA, just like they could if they were aired on a commercial network. Is that correct?

Senator Fifield: That is correct.

Senator URQUHART: In general, in relation to the broadcasters, what powers do you have when you conclude an investigation?

Mr Chapman: With respect to commercial broadcasters of public broadcasters.

Senator URQUHART: In general—in relation to broadcasters.

Mr Chapman: There is a different regime because there is a slightly different construct.

Senator URQUHART: In relation to broadcasters, what powers do you have when you conclude an investigation? So, I guess, if there are differences can you just explain the differences between the two?

Ms McNeill: Yes. In the event of a breach of a code of practice for all broadcasters other than the national broadcasters, the ACMA might elect to take no action at all other than, for example, to publish the report. It might agree on particular measure the broadcaster will take to address concerns of systemic issues that have been flagged by the investigation. The ACMA can accept an enforceable undertaking offered by the broadcaster or the ACMA can impose an additional licence condition on the broadcaster. That is a little different to the suite of powers available in respect of national broadcasters. There, again, the ACMA might elect to take no action, it might agree measures to be implemented by the national broadcaster to address any concerns that surfaced through the investigative processes or it might give a written notice recommending that the broadcaster take particular action. In the event that the broadcaster does not take that action, the ACMA can report that to the minister. So there is a different style of accountability. There is a different suite of remedies available in respect of licence conditions and standards breaches. But I am assuming that you are really after the code of practice differences.

Senator URQUHART: That is right, yes. Should these powers be augmented in anyway, do you think?

Mr Chapman: I think we are on record over the last several years indicating that it would be beneficial to the regulator to have what we call slightly more calibrated mid-tier powers. We think public confidence in the system would be enhanced if there were slightly wider suites of mid-tier powers, as I have said on the record. Having said that, I think the regulatory system and the regulatory construct works very well. But you asked me a question and I have given you an answer with respect to something that would be useful, but it is on the margin.

Senator URQUHART: Thank you. I just asked the department this question and they referred me to the ACMA. Did the ACMA replace Rebecca Burdon after she left the role of the chief economist?

Mr Chapman: We did, Senator.

Senator URQUHART: You did. I do not know whether you can answer this question or whether I might need to get the secretary back in, if he is here. Is there any overlap between that role and the new role of the chief economist within the department?

Mr Chapman: I do not know the answer to that. We have very distinct and separate responsibilities and functions. We have found the appointment of a senior economist—Rebecca Burdon originally and more recently Midge McGlade—to be of enormous bonus to the ACMA in terms of enhanced expertise and rigour. The government's new regulatory program will only make those skills more important and cause us to bring into even sharper focus adequate identification of costs and benefits. I can't comment on the secretary of the department's reasons. I am not across the specification. I can say that there is extremely good cooperation between the ACMA and the department. I think this is another area that would be rife for enhanced co-operation.

Senator URQUHART: Thank you. I want to touch on digital radio now. Are you aware that there has been a recent flurry of interest by regional communities in digital radio?

Ms Cahill: We have not been approached directly in relation to the potential for additional digital radio rollout requirements.

Senator URQUHART: The ACMA website on the roll-out of digital radio to regional areas says:

The Minister for the Department of Broadband, Communications and the Digital Economy (DBCDE) is responsible for specifying the digital radio start-up day for regional licence areas. Digital radio will not be available in regional licence areas before the Government concludes its review of digital radio transmission technologies for regional areas.

To be clear, the next trigger is a decision to be made by the minister about a start-up day. Is that correct?

Ms Cahill: The government is aware of interest in digital radio more generally. As part of that, the department of Communications has actually issued a discussion paper that looks at the process moving forward for digital radio. The department issued this discussion paper on 24 December and comments are due in by 28 February. This, I'm sure, will contribute to the discussion of what will be the appropriate policy and policy settings for the roll-out of digital radio.

Senator URQUHART: The same page of the ACMA website says that trials of DAB+ in Canberra and Darwin commenced in July and August 2010 respectively. It also says that the trials have been extended to 31 July 2012. Have they been concluded?

Ms Cahill: No. The trials have been continued, to be enabled by the ACMA.

Senator URQUHART: Until when?

Ms Cahill: At this stage I believe that it is July this year and we will again consider, should there be a further application, the application on its merits.

Senator URQUHART: So the department’s review of technologies for digital radio was tabled in parliament on 12 October 2011. Is this the review to which the section of your website refers?

Ms Cahill: It is not the review. That was part of the general process of looking at what might be the settings around digital radio. So that was part of that, but, as I say, there is a statutory review being conducted by the department at this stage. Discussion papers are out there that canvass a raft of matters including the technology and where it might be headed.

Senator URQUHART: Am I correct that the two technologies favoured in that review are DAB+ and DRM? Can you inform the committee of the difference between them?

Ms Cahill: Sorry, Senator, I do not have that information available. I would have to take the details on notice. But broadly speaking, you are right: those are the two technologies that are being canvassed. We will provide detailed information on the technologies.

Senator URQUHART: Can you tell me why technical trials are only being conducted on the DAB+?

Ms Cahill: Again, I would have to take that question on notice.

Senator URQUHART: Is there any work currently being undertaken by the ACMA on digital radio that needs to be completed before the minister could make a decision on the start-up date for regional licenses?

Ms Cahill: We are continuing to support any decision making of government into the future, which might be through providing advice on technology. It is also ensuring that there are 14 MHz of VHF spectrum available through the restack process.

Senator PRATT: I would like to refer to your release of 10 January 2012 in which you said that Telstra had paid an administrative penalty for failing to meet customer service guarantee benchmarks. When were those benchmarks introduced?

Mr Chapman: Senator Pratt, I think you are referring to January 2014.

Senator PRATT: Yes, sorry.

Mr Tanner: 2011.

Senator PRATT: Is that the first time that Telstra has failed to meet those benchmarks introduced in 2011?

Mr Chapman: Yes.

Senator PRATT: The document says that this is an administrative penalty. Can you explain what that is?

Mr Chapman: It is like a parking infringement notice—it is just an expensive parking infringement notice. There is a view by the ACMA that Telstra was in breach of that particular benchmark, and in lieu of more complicated legal proceedings and/or further penalties the offer is made to the recipient of the notice to pay the fine and conclude the matter at that stage. We issued an infringement notice to Telstra for that amount. That amount is the prescribed amount in the legislation and Telstra decided to pay the fine, and we moved on.

Senator PRATT: Sounds like an effective way of resolving the issue. Is that what has previously been referred to as a mid-tier power for resolving these issues?

Mr Chapman: Infringement notices are a potential component of mid-tier powers. When we talk about mid-tier powers we are particularly talking about the broadcasting space. Infringement notice capabilities were given to us several years ago in the telecommunications space via the then minister. We thought that was a very useful adjunct to our powers in the telco area.

Senator PRATT: Good. Which minister was that? Was that Minister Conroy at the time?

Mr Chapman: It was, Senator.

Senator PRATT: Have you discussed with the department the provision of any additional powers? I think this goes back to some of the earlier questioning?

Mr Chapman: I haven't had any discussions with the department about the mid-tier powers. There is a lot of activity in the space generally. As I said earlier in response to questions, I think the system is working satisfactorily and it is not something we are pushing at the top of our agenda at the moment, bearing in mind that there are a lot of other priorities.

Senator PRATT: But clearly they can be effective tools, as in this instance. Has the ACMA seen the evidence on the state of Telstra's copper network that has been presented to the Senate Select Committee on the National Broadband Network?

Mr Tanner: I was present for a good part of those hearings, so I saw some of the material that was presented. I think we also may have answered some questions ourselves.

Senator PRATT: Indeed. ACMA’s act details the functions of ACMA. Clearly you will understand what they are, but for the record they include sections 8 (1) C and D, which state:

(c) to report to and advise the Minister in relation to the telecommunications industry;

(d) to report to and advise the Minister in relation to matters affecting consumers, or proposed consumers, of carriage services;

Given that the minister is proposing to change telecommunications policy to continue to use the copper network instead of replacing it with fibre, has ACMA provided the minister with an assessment of the state of Telstra's copper network?

Mr Chapman: No, we haven't.

Senator PRATT: The Senate select committee was advised in Perth by Mr O'Donnell that Telstra’s CNI—or customer network improvement—database would provide information about the state of the copper network. Mr O’Donnell said:

For all intents and purposes, the union, the media and—I am certain—members of this committee have all pursued Telstra to put that CNI record and database out there for the public to be made aware of. I think it is critical that, if we are looking at a fibre-to-the-node or a fibre-to-the- premises model, if we are fair dinkum about finding out, and Telstra is legitimate about telling people, what state the copper network is in, then they should put that CNI database up. I do not know why it is not public property already. The Australian taxpayers have a right to know how bad or how good that copper network is, and that CNI database is the biggest clue that we can get to to find out.

Has the ACMA ever sought access to Telstra's CNI database?

Mr Chapman: Not to my knowledge.

Senator PRATT: Finally, I want to take the opportunity to follow up on a question that the ACMA took on notice at the Senate select committee on the NBN. In particular, it was in relation to the thickness of copper. In the ACMA's view, does reducing the diameter of copper wire have a greater effect on the attenuation of high frequencies used for data than it does for lower frequencies used for voice? I do appreciate that that is quite a technical question.

Mr Chapman: I can't recall that particular question. Nor can I recall the ACMA response, but in any event we would need to take that on notice, and I qualify that by saying if it is a relevant consideration within our remit. ACMA, as an overarching statement, has a role in telecommunications with respect to consumer protections. We have very little visibility under our areas of responsibility for the state of Telstra's copper. Contrary to urban myth, it is not a matter we have a particular role with respect to.

Senator PRATT: I wouldn't call it an urban myth, but arguably you have a role in reporting and advising the minister in relation to matters affecting consumers or proposed consumer carriage services. Clearly, the extent to which one consumer in one region gets different services to another because of the state of Telstra's copper network would be relevant.

Mr Chapman: I accept your response, Senator. I was just simply trying to make the point that we aren't the source of truth for the state of Telstra's copper. We have a number of peripheral roles in that space, including some that Mr Tanner is just going to touch on.

Mr Tanner: I think we made the point previously that our primary focus was on outcomes for consumers—the way the benchmarks have been set up and the way the CSG has been set up. What it is really about is ensuring that there is recourse, particularly for consumers who experience substandard service but also there is general recourse by the regulator when the percentage performance by carriers actually declines below 90 per cent. I did say that, but I don't want to gloss over altogether that we do actually have a more general function in obtaining information from Telstra about a number of aspects of the performance of its network, and in fact publish that.

You will find that much of the data that we collect we publish in our annual communications report. We put out our most recent one late last year and there is a tremendous amount of data in there. And that does actually include data that might potentially go to the performance of the network. But we do not attempt to construe it. For example, we publish comprehensive data about CSG compliance and that includes comprehensive data about the number of faults. We also publish further fault data under the network reliability framework. The story that that fault data tells you over a number of years is reproduced in a number of graphs in the communications report. So there is actually material collected by ACMA from the major carriers, including Telstra, and much of which is in fact in the public domain, promulgated in our communications report which generally goes to the performance of the network. What we have not done is taken that extra step of actually sending people out into the fields to attempt to in some way audit or compile information on the state of the copper network. You rightly make the point that our re it to advise ministers is potentially open-ended. That is, as an adviser, but that is not a discretion that we have exercised at this time.

Senator PRATT: So you have not yet accessed the CNI database, but clearly that kind of information is relevant to the kind of information you are already highlighting?

Mr Tanner: We collect and we publish a fair bit of information about the performance of the fixed line network, including a fair bit of information on faults—the total number of faults from year to year. You can see the series data and the percentage of subscriber lines in any given month that experience problems. We publish that data. The number of lines that experience more than three faults in a 60 day period, we publish that data as a time series. The number of lines that experience more than, I think, four faults over a 365 day period, we publish time series on that as well. It is all in the communications report. So there is a substantial amount of data which is collected from the major carriers and put in the public domain.

Senator PRATT: Wouldn’t the CNI database be a good complement to that information?

Mr Tanner: I would have to take that on notice.

Senator PRATT: Can you take on notice the question about attenuation of frequencies for data versus voice? Clearly they are all related. In addition, could you also advise whether poor joints and the corrosion on the surface of a copper wire has a greater effect on the attenuation of higher frequencies used for data than it does for lower frequencies used for voice? Again, I would be happy for you to take that on notice to get ACMA’s views.

Mr Chapman: I can't guarantee that they are matters within our expertise, but we will take it on notice and respond genuinely with respect to the limits of our expertise.

Senator PRATT: Okay. I would hope, given that they may be matters that affect consumers, that it is something that you could see to be within your remit, notwithstanding the clearly complex issues. Thank you.

CHAIR: Senator Ruston

Senator RUSTON: Can I go back to something that Mr Giles was talking about in relation to your fault reporting for your networks? You obviously have some sort of requirement that you report on faults. Is that part of your charter?

Mr Tanner: The major carriers that are subject to the CSG report to us annually on that gross number of faults as part of CSG reporting.

Senator RUSTON: And under the areas that you just described? As a matter of interest, have we seen an increase in the amount of faults that have been reported in relation to Telstra, or have we seen an increase in the number of faults over the last 12 months or two years?

Mr Chapman: The answer is that the number has been fairly static. As I say, there are a number of time series data shots in the communications report, and I commend those to senators with an interest in reported faults. For example, Telstra reported 933,052 faults in the 2012-13 year. That was compared with 1,008,832 faults in the previous year. That is a decline of 7.5 per cent. But the point also should be made that the number of CSG services in itself also dropped because a lot of people are giving up fixed line telephony. It dropped by five per cent. So if you take those two figures together you see that the fault numbers declined very slightly—I would suggest probably insignificantly from last year to this.

Senator RUSTON: It is still a 2½ per cent decline on the figures that you have just given. I suppose what I am thinking is that there has been quite a lot of hysteria around the copper network in the debate about the NBN rollout, the suggestion being that it is in such a parlous state that it is completely imploding. One would have suggested that if that were the case you would have seen a marked increase in the number of faults reported in relation to the copper network. That quite obviously is not the case, because, albeit there has only been a small decrease in the number of faults that are being reported, it is nonetheless a decrease in the number of faults. I was just interested in getting those figures.

Do you continue to collect data on the percentage of the CSG services experiencing faults in any given month?

Mr Tanner: Yes, we do.

Senator RUSTON: What is the current level of performance.

Mr Chapman: It might be easiest if I simply refer you to pages 70-72 of the most recent communications report. We publish the number of services, as a time series, which have greater than four faults every year in any given year and greater than three faults in any 60 days. The reason I am being a bit coy is because what I have here in front of me are the graphs, the time series, and you can see the trends of them. But it is quite hard for me to read the exact figure from that. That information isn't actually there. If you want a visual representation, it is there. If you want the exact figures I can get those.

Senator RUSTON: I suppose I am trying to see if the level of performance is high or low, is it increasing or is it decreasing.

Mr Chapman: Let me give you a couple of generalisations then, just by using my naked eye and these graphs from our own communications report. The graphs show performance against those two criteria from 2008 through to June 2013. The timeline for greater than three faults in 60 days doesn't show any upward trend at all. It jigs and jags about but it is pretty flat over that whole five-year period. There is a small discernible increase in the number of services showing greater than four faults in any 365 day period over the period from 2008–13. But that increase mostly seems to have occurred in the first half of that time series and it has flattened out since. So I am now describing what those trends are. If I can also generalise from the data, too, I think I have given you the overall number of faults for Telstra comparing the last year with the year before. The only thing that has actually increased over that period is the time taken to fix each fault. That has gone up and that seems to be related to something else, which has received a bit of attention, which is that our statistics show that there has been quite a sharp uptake, I think in the first half of last year, in Telstra's reliance on mass service disruption notices caused by severe weather events. It appears that it took longer on average for faults to be fixed but the number of faults were staying pretty flat. I hope that is helpful. I am sorry; it would be easier to show you the graphs, and you can get them from our website.

Senator RUSTON: Certainly, I will go and have a look at them. As I say, all I am trying to do is establish that there has not necessarily been a decline, as one would have been led to believe.

Senator Fifield: I should point out, just picking up Senator Ruston's point about the hysteria in some quarters about the copper network, that the intention of NBN Co is to use the best technology in each given area. Obviously they will take into account a range of factors—costs, time and network performance. That is probably a statement that is self-evident but it bears repeating.

Senator RUSTON: Can I just go back to the initial questioning about your inquiries into complaints? I noted that between July 2013 to your report in January this year that you had finalised 112 investigations. Of that, 12 investigations you have found 27 breaches. I noted in your answer to Senator Urquhart that you said what the majority of the complaints were about. What were the majority of the major issues of those that you found in breach?

Ms McNeill: I do not have the information to hand. I can get that for you.

Senator RUSTON: Just generally, were they incitement of hatred? Was it accuracy of information? Was it bias? You do not need to be exact.

Ms McNeill: To give you a sense, there were several captioning provision breaches. The majority of those were disregarded under the legislation that allows us to disregard breaches that result from unforeseen technical or engineering difficulties. There were three breaches of accuracy provisions. I do not have the numbers here but my expectation is that there would have been several breaches also of complaint handling obligations under the code. That gives you a flavour. One of the breaches concerned incitement of hatred, I think, on racial grounds.

Senator RUSTON: So there was nothing unusual in the trend?

Ms McNeill: No.

Senator RUSTON: Do you have a statutory length of time within which you must report back?

Ms McNeill: We do not.

Mr Chapman: When you say 'must report back', do you mean completing our investigation?

Senator RUSTON: Yes.

Mr Chapman: No, we do not. We have historically had an internal KPI, for want of a better expression, of six months from the commencement of the investigation.

Senator RUSTON: Your commencement or the—

Mr Chapman: Yes.

Senator RUSTON: So it does not include the bit where they have to go back to the original media outlet?

Mr Chapman: No. Until an enlivened complaint is with us—and we are talking about code breaches here. As Ms McNeill explained earlier, there are different constructs depending on whether it is licence conditions, standards or codes. With respect to 90 per cent of the action, say, code breaches, it could take months, sometimes years, before a complaint gets to us. I am taking 'years' in the widest context. We do not currently have a statutory limit on the lack of freshness of a complaint. We measure our performance from the date on which a complaint is received which, in the ordinary case, might be three or four months later, bearing in mind the thresholds that a complainant needs to go through. Their concerns are taken to the licensee in the first instance. If 60 days expires without a response, that enlivens the complaint to us, and/or they are not happy with the licensee's response. So six months is the KPI from the date of receipt of the complaint.

We have worked assiduously over the last four to five years to do a lot better than that. The average time taken to complete an investigation is 3.2 months. We have been progressively bringing it down and down as we have improved our processes and triaged those complaints in a lot more effective way. The holy grail number is sub three months. It is a very iterative process with licensees and we will be doing very well to get sub three months, but at the moment it is 3.2.

Senator RUSTON: One can assume that there are some that go through fairly quickly, because some of the more complex ones are obviously going to take a lot longer?

Mr Chapman: That is exactly right, and some of them are elongated as a result of licensees exercising their prerogative to test certain aspects of the investigation either with the Federal Court or the Administrative Appeals Tribunal.

Senator RUSTON: I was noticing the number of complaints that you have listed, because you said that 1,003 were received between 1 July and 31 January, in the last seven months. There seems to be quite a noticeable decline from 2012-13 and 2011-12 in the number of complaints that you are receiving. On the figures that you have published, you are looking at about 42 complaints a week in 2012-13 and about 43 per week in 2011-12 and yet to date you have only received an average of 33 complaints per week in the seven months of this year. Is there any explanation for that or is it just one of those strange anomalies?

Ms McNeill: I think it is one of those strange anomalies. I have not worked out the average figures. Looking at them, in the preceding two financial years, we had around 2,200 complaints or inquiries and for a six-month period this year, we had a thousand.

Senator RUSTON: It was actually in a seven-month period that you had a thousand.

Ms McNeill: You are right; I apologise.

Senator RUSTON: In a six-month period, it is really significant. I did a quick calculation on my phone and it has gone from 40—

CHAIR: In your head.

Senator RUSTON: In my head; indeed. It has gone from 43 complaints per week to 33 complaints. That is a significant decrease. I noted that in your figures you had removed the complaints in relation to the prank, so there is not even that spiking. When you do your analysis of your year, if it turns out that you have had such a significant decrease, it would be very interesting to know why you think that is the case.

Ms McNeill: I should say that that figure picks up complaints and inquiries. They are not necessarily all what we would call 'valid' complaints, namely complaints that we are obliged to investigate, where it is at the stage where preliminary concerns have been raised with the licensee and then they are brought to us after the 60 days or after an unsatisfactory response. There are also people with general concerns: how does it work; is there a rule against this; who should I go to; I did not like the colour of the news reader's tie—or whatever it might be.

Senator RUSTON: Certainly the number of investigations completed would suggest that—

Ms McNeill: The number of valid complaints is relatively consistent.

Senator RUSTON: Yes. So why are people not complaining? I suppose that is the question that you might be interested to have a look at.

Ms McNeill: It is.

Mr Chapman: Interestingly, that comes off the back of several years of the introduction of the ability to lodge complaints electronically. The concern or apprehension at the outset was that they may actually give rise to a small tsunami of complaints, whereas in reality, notwithstanding the availability of online electronic complaint facilities, the numbers have, as you have observed, stayed fairly constant if not slightly declined, although they do tend to fluctuate from year to year depending on topicality.

Ms McNeill: We could yet have a post-Christmas rush.

Senator RUSTON: Yes; the post-Christmas sale.

Ms McNeill: Watching television.

Senator RUSTON: Indeed.

CHAIR: Senator Urquhart, do you have any follow-up questions?

Senator URQUHART: I have a question in relation to the fault data that you referred to in answer to one of the questions from Senator Ruston. Was that voice or ADSL faults that you referred to?

Mr Tanner: The two graphs that I was comparing are basically on the network reliability framework, Telstra's fixed line telephone services network.

Senator URQUHART: Is that voice?

Mr Tanner: It certainly is voice, but I am not sure whether it is limited to voice. I am sorry; I do not know that off the top of my head.

Senator URQUHART: Would you be able to take that on notice and get back to us?

Mr Tanner: Yes, I can.

Senator URQUHART: Thank you.

CHAIR: Senator Urquhart, you would like to have one more question of Mr Clarke, if we could recall him.

Senator URQUHART: I would, yes.

CHAIR: Could Mr Clarke return for just one question, while we have a bit of time up our sleeve?

Senator URQUHART: Thank you, Mr Clarke. I asked ACMA about the replacement of Rebecca Burdon and they said that, yes, they did replace that person. Would you be able to outline whether there is any overlap between that role and what the new role of the chief economist within the department does?

Mr Clarke: I certainly do not see it as duplicative. As Mr Chapman indicated, I see it as an opportunity for deeper collaboration on the shared research agenda that we have. There really is a network of these chief economist—the general label—folk around government departments and agencies. I want us to be part of that conversation, part of the deeper strategic economic analysis. Where we can build on work done by Mr Chapman's authority or on the ACCC or anyone else, that is great and, where there are gaps, we will do the research ourselves.

Senator URQUHART: Thank you.

CHAIR: Mr Clarke, Senator Ruston has a few questions for you as well.

Mr Chapman: Chair, are we dismissed?

CHAIR: Yes, you are dismissed; thank you, Mr Chapman.

Department of Communications

[10:10]

Senator RUSTON: Mr Clarke, I am more than happy for these to be taken on notice.

Mr Clarke: I will do my best.

Senator RUSTON: I have a whole list of budgetary questions, and I am being extremely lazy because it saves me having to put them in writing if I can ask them of you here. What has been the impact on the communications agency–on jobs, operations and services—of the efficiency dividend decisions of the former government?

Mr Clarke: The accumulated effect of those efficiency dividends in my department will be that I will need to reduce staff numbers. The issue within communications is compounded by there being a number of terminating programs, so there is no more work in some areas. So it is the total of the two that will be driving my reduction in head count.

Senator RUSTON: So there were a number of programs that were required to be terminated?

Mr Clarke: Correct. The programs came to the end of their natural life. They were not prematurely terminated; they were always going to end at that time, and we therefore need to take the commensurate actions.

Senator RUSTON: What is the implication for a potential operating loss?

Mr Clarke: I am not expecting an operating loss in the department this year. My budget outlook is to come in on budget and that is what I am seeking to do.

Senator RUSTON: How many redundancies or job reductions have you had to undertake in this financial year or will you be required to take in this financial year to meet those objectives?

Mr Clarke: I responded to a similar question from Senator Urquhart where I outlined that there has already been a net reduction of around 100 people since 30 June last year through a combination of voluntary redundancies, natural attrition and so forth. I will need to make further cuts in the future. I am not in a position to quantify those numbers at this stage, but I think the word I used to Senator Urquhart was that they are 'significant'.

Senator RUSTON: Are any of the redundancies or the potential redundancies that you are going to have to undertake as a result of these efficiency gains of the previous government going to result in compulsory redundancies or any compulsory activity, or are you trying to do them all by natural attrition or voluntary means?

Mr Clarke: I have already had to move to a limited number of involuntary redundancies through the formal provisions because the scale of the reduction—the total of terminating programs and efficiency dividends—was beyond my capacity to deal with by VRs.

Senator RUSTON: In this process, have you had any tendering or procurement processes that have had to be abandoned or disrupted in this period?

Mr Clarke: I have to manage the department to the budget, so I would not point to something that I needed to do or desperately wanted to do that I have been unable to do. I have had to manage both my headcount and my contracting and procurement to the budget and so far I am on track to do that for this financial year.

Senator RUSTON: Once again going to that period pre 7 September, during that period prior to the election, did you issue any offers in relation to grants or tenders or anything?

Mr Clarke: That is a very broad question. Right up until the commencement of the caretaker period, of course, we were doing the normal business of the government of the day, so the answer is inevitably yes. Of course, as soon as caretaker commenced, we worked under those conventions.

Senator RUSTON: I suppose it would just be interesting if there were any major ones. Obviously the general stuff that you have to do on a day-to-day basis—

Mr Clarke: In programs or other—

Senator RUSTON: Programs—grants particularly, but large tenders as well would be—

Mr Clarke: When you say 'a tender', we would not have initiated a tender—

Senator RUSTON: No?

Mr Clarke: We would have been very careful not to have locked in the incoming government by a tendering process in that period. But there certainly were existing programs that had grant elements that we did administer under the program guidelines right up to caretaker.

Senator RUSTON: The inevitable question: did your agency provide any funding to unions during the past three years?

Mr Clarke: Not to my knowledge, but I will double-check the answer to that question.

Senator RUSTON: Were there any last minute decisions to have any ministerial appointments, appointments to boards or other senior roles in the period immediately prior to the caretaker mode that you are aware of?

Mr Clarke: There are none that immediately come to mind, but that is a question on which I will be able to check the records and give you a precise answer.

Senator RUSTON: Thank you.

[10:14]

CHAIR: I now call officers from the department in relation to program 1.1, broadband and communications infrastructure.

Senator CONROY: I want to talk about the prioritised rollout and your broadband survey. At the conference 'Rebooting the NBN', on 18 November, the minister said:

Up to two million households and businesses across Australia cannot get basic fixed-line broadband at present. Addressing these underserviced areas first is a key objective of our NBN policy.

The department's document seems to not quite mirror that policy commitment. On page 6 you state:

The objective is to prioritise the areas of greatest need where this is logistically and commercially feasible.

Have you drawn that to the minister's attention?

Mr Clarke: The minister is familiar with the document that the department produced—indeed, he released it, as you know. The remarks that he made on launching it are entirely consistent, I believe, with his earlier remarks in this area.

Senator CONROY: It says, 'Addressing these underserviced areas first'—there is no qualification; it just says 'first'—'is a key objective of our NBN policy.' But your document qualifies that by saying 'where this is logistically and commercially feasible'. So, if it is not logistically and commercially feasible, they will not be getting it first.

Mr Clarke: The department's report has been provided to the NBN to inform their prioritisation—

Senator CONROY: But you have not informed their prioritisation; you have actually told them that they do not have to do it if it is not logistically and commercially feasible.

Mr Clarke: No, on the contrary: we have said to them—

Senator CONROY: No, on the contrary—that is exactly what you have said.

CHAIR: Senator Conroy, will you please let Mr Clarke complete his answer.

Senator CONROY: If Mr Clarke is misleading the Senate, I will draw it to his attention.

CHAIR: Mr Clarke, you have the call.

Mr Clarke: Senator, I believe that the document, the advice that we have provided to NBN to inform their prioritisation, speaks for itself. We have said, 'Here are the areas not served, or poorly served, and this should be a key input to your prioritisation for the rollout.'

Senator CONROY: But you do not meet the commitment or, as Mr Turnbull says on 18 November, a key objective of NBN policy is to address these underserviced areas 'first'. He does not say 'first if it is logistically and commercially feasible'. There is a quantum difference between what you have written and what the minister stated publicly on 18 November.

Mr Clarke: First of all, I do not think there is any difference between what we have written and what the minister stated when he launched the document. I do not accept that it is a quantum difference. I think it is a sensible observation around the pragmatics of such a large-scale rollout.

Senator CONROY: So Minister Turnbull's statement 'underserviced areas first' is not a sensible statement?

Mr Clarke: I am sorry, but that is not—

Senator CONROY: You have just said that this one is a sensible statement—which, given that it is substantively different, implies that the first one was not sensible.

Mr Clarke: I do not accept that it is substantively different. I think the statements are consistent and have the same spirit that priority will be given to underserved areas.

Senator PRATT: Where it is commercially feasible.

Senator CONROY: Very different.

Senator PRATT: Very different.

Senator CONROY: Your report states on page 12:

In general, states or territories with either a higher population density or more urbanised population were found to have a greater level of access to broadband services.

So you do make the point that areas of density and higher population mysteriously seem to have a greater level of access to broadband. Why is it that some areas have bad broadband? Is it because they are not dense enough?

Mr Clarke: I do not think it is mysterious; I do not understand the point. It is a statement about the observed reality on the ground at the moment.

Senator CONROY: And it is because often it is not logistically or commercially feasible for markets to service non-dense areas.

Mr Clarke: Correct.

Senator CONROY: So your document clearly indicates that you recommend that the objective is to prioritise the areas of greatest need where it is logistically and commercially feasible. It says to people who live in non-dense areas, 'You're not getting it first.'

Mr Clarke: No, that is absolutely not—

Senator PRATT: It sounds like it to me.

Mr Clarke: Well, Senator—

Senator CONROY: That's exactly what it says.

CHAIR: Order! Senator Conroy, we are not going to have interjections when the witness wants to answer the question. Ask the question, then please be quiet and let the witness answer the question from now on.

Senator CONROY: I think Mr Clarke is more than capable of handling the odd interjection.

CHAIR: Senator Conroy, I am running this committee and I have great confidence in Mr Clarke.

Senator CONROY: I have great confidence in him—he does not need your help.

Senator Fifield: Chair—

CHAIR: Certainly.

Senator Fifield: Through you, I think it is important to observe at this point that there has been a fundamental change in policy from the previous government to this government—

Senator PRATT: I think that is what is Senator Conroy is trying to point out.

Senator Fifield: in that—

Senator CONROY: There is been a fundamental change of policy from November to January; that is what I am pointing out.

Senator Fifield: for areas which have poor service, there will be a prioritisation. There was no prioritisation under the previous government for those areas.

CHAIR: Your turn to talk, Mr Clarke.

Mr Clarke: Senator Conroy and Senator Pratt have drawn an inference from two elements of the report that is not true—simply not true.

Senator CONROY: You can state that—

Mr Clarke: Quite the contrary—

Senator CONROY: but it doesn't make it correct—

CHAIR: Senator Conroy!

Mr Clarke: Quite the contrary. Having pointed out—as you say, Senator—the observation that areas in policy terms of market failure where it was not commercial pre the NBN to provide high-speed broadband service, it is not a surprise that they have come up in this analysis as poorly served. That, in fact, is one of the primary policy objectives: to serve those areas.

Senator PRATT: So it will be logistically and commercially feasible to service all those areas?

Mr Clarke: That is a question that you will ask, no doubt, NBN Co shortly. The policy direction that the government is giving is to give priority to underserved areas at present.

Senator CONROY: No, it is not true. You cannot use half a sentence when you have a written document in front of you, Mr Clarke. You cannot do that.

Mr Clarke: Senator—

Senator CONROY: You have written—and your name is on this—that the objective is to prioritise the areas of greatest need where this is logistically and commercially feasible. Stop taking half the sentence off when you give your verbal answers.

Mr Clarke: So the question really is: what is the counterfactual? Will the rollout be different, as a result of this advice, from what it would have otherwise been? The answer is undoubtedly yes.

Senator CONROY: Only where it is logistically and commercially feasible.

Mr Clarke: Will the rollout be different? Yes.

Senator PRATT: So areas that are—

Senator CONROY: The currently underserved areas, we agree, are underserved because it is not logistically and commercially feasible for the market to serve them. So the market test of logistically and commercially feasible you have recommended be applied by NBN Co, which is not what the minister promised the Australian public on 18 November.

Senator Fifield: I will just come in here, chair, as a simple minister representing the minister. It would occur to me that, even when seeking to prioritise areas of poor service, there will be a prioritisation; there will be an order in which those particular areas will receive services. All those areas, I assume, will not receive services on the same day—

Senator PRATT: Those where it is less feasible will come last.

Senator Fifield: And where there may be a logistical challenge today, that is not to say that there will not be ways of addressing those logistical challenges—

Senator CONROY: Do you understand anything about network rollouts?

CHAIR: Continue, Minister.

Senator Fifield: in the future.

Senator CONROY: The rollout will be different; we agree.

Senator Fifield: The point is that these are things which feed into the ordering, the sequencing in which poorly serviced areas receive better service.

Senator PRATT: Probably last, after everybody else.

Senator Fifield: The point that the secretary made is that there will be a difference—

Senator CONROY: And we agree.

Senator Fifield: in the rollout compared to the previous government. There will be poorly serviced areas—

Senator CONROY: The rollout will be different.

Senator Fifield: that will receive better service than they otherwise would have.

Senator CONROY: We agree that the rollout will be different, but the areas that the minister is claiming will be different will not be first. That is the bottom line.

Senator PRATT: Yes. You are saying that they have a lower priority.

Mr Clarke: No, that is not a reasonable interpretation of the report at all.

Senator CONROY: It is an entirely reasonable interpretation.

Senator PRATT: Yes. You used the word 'priority'—

CHAIR: Order! Mr Clarke, you have answered the question several times. Senator Conroy may have another question to ask today, if he is not going to harp on that one all day.

Senator CONROY: Senator Conroy will decide what questions he has.

CHAIR: Mr Clarke has answered the question.

Senator CONROY: Mr Clarke is doing fine; he does not need your help. He is sitting there as cool as a cucumber.

Senator RUSTON: This was so pleasant this morning until you turned up.

Senator CONROY: Yes, you might have Senator Williams trained like a puppy to do what you want—

CHAIR: Oh, really!

Senator CONROY: but it is not going to be the case now.

Senator RUSTON: No, no. We had respectful senators here this morning, Senator Conroy; we do not seem to have that anymore.

CHAIR: Order! Senator Conroy, you have the call. Do you have another question, or are you going to sit here and pass comments all day?

Senator CONROY: The minister has said that he wants NBN Co to function more like a private business. Areas in Australia that are underserved are usually underserved because they are not profitable for private enterprise to service; we have already had that discussion. If NBN Co is only going to prioritise areas where it is logistically or commercially feasible to do so, will any areas be prioritised?

Mr Clarke: Again, you are drawing two points and an incorrect conclusion by joining them together. Yes, the remark that the minister has made about behaving more like a private business is in its operations. In terms of prioritisation, it is a public business and the minister has directed that it give priority to underserved areas. To my mind, that is entirely rational—the joining together of those two points. Yes, there will be a higher priority given to underserved areas.

Senator CONROY: A higher priority is not first though, is it?

Mr Clarke: We will see. We do not have the plan in front of us.

Senator CONROY: You keep trying to pretend that it is. Even Dr Switkowski in December did not try to pretend that 'first' and 'high priority' were the same, but you are trying to do so.

Senator Fifield: Through you, Chair, I will just quote from Minister Turnbull's press release or statements: The NBN's recent strategic review found that underserved areas can be upgraded on average two years sooner if they are prioritised in the rollout.

That is a material difference to when those areas would receive a better service. Also in the policy document that we released in April last year, it stated that we would seek NBN Co to amend so that they could receive—and I will just quote it here—'amend the rollout plan from the earliest commercially feasible date to grant priority to identify underserved areas'.

Senator CONROY: Thank you for that. I am glad you have brought that point up because that is the exact point I am going to next. Let us assume that some areas will be prioritised, as you are claiming. Let us look at what the word 'first' means. I thought I might start with the Oxford dictionary. It defines the word 'first' as 'coming before all others in time or order; earliest; 1st'. During a hearing of the Senate select committee last year, NBN  Co's head of transformation and yachting, Mr Rousselot, said that these areas will be—and I quote; and I think you have just quoted something fairly similar—'completed 2.5 years earlier than the rest'. Dr Switkowski also said, 'We're going to bring these areas forward in the rollout schedule. Does that mean that they are the first areas that we will look at?' This is what Dr Switkowski said: 'No, it does not mean that.'

It is fairly clear-cut. So, Mr Clarke, you can continue to claim that 'prioritise' and 'first' are the same—the Oxford dictionary will disagree with you—but, more importantly, Dr Switkowski disagrees with you. He says, 'Does that mean they are the first areas that we will look at? No'—and that is Dr Switkowski asking himself rhetorically and answering the question. I am sure you have seen the *Hansard*. I am sure you were forced possibly to even watch that tortured Senate hearing. The minister said that these areas would be served first—18  November, he was already the minister. But, according to NBN Co, they will not be serving these areas first, despite your best efforts to pretend it. According to your study, areas will only be prioritised. Now, we can look up the word 'prioritised' in the Oxford dictionary and we can compare it to 'first', if you like, Mr Clarke, but 'prioritised where it is logistically and commercially feasible'. So which of these is correct, according to the department's understanding of the policy: the minister's statement on 18 November or your document?

Mr Clarke: In my view—and I go back to the earlier remarks that you made—the two statements are consistent about the change in priority to be given in the rollout. Now, NBN will speak for themselves as to how they will turn this policy direction into an operational large-scale engineering project. They, of course, as you know, have the burden of having to deal with the engineering and physical aspects of it, but the policy direction, to my mind, is clear and consistent.

Senator CONROY: The policy areas, according to the Oxford dictionary, are not clear and consistent, and you can keep muddying it up and pretending they are, but I will move on. Your report indicates that approximately 20 to 40 per cent of premises in band B have no access to at least one fixed broadband technology. Is that correct? That is, I think, a table on page 8.

Mr Clarke: Thank you. Literally, availability rating B states that between 60 and 80 per cent of premises in these areas have access to at least one fixed broadband technology.

Senator CONROY: And the counterfactual to that is that between 20 and 40 per cent of premises in there have no access to at least one.

Mr Clarke: Or have one or less, I think would be the—

Senator CONROY: No access to—

Mr Clarke: Look, perhaps I could bring an expert to the table—

Senator CONROY: Please do because this is an important point. I was actually surprised by this—

Mr Clarke: Certainly.

Senator CONROY: so I am trying to understand exactly what it says.

Mr Clarke: Sure.

Senator CONROY: But, by saying that 60 to 80 do, that does tend to imply that 20 to 40 do not.

Mr Clarke: I understand your point.

Senator CONROY: So perhaps we can—

Mr Clarke: I will ask Ms Grainger to elaborate on or explain that point.

Ms Grainger: Yes, Senator, you are correct in your understanding. The way the categories work is that we have compared distribution areas, which means that we are not looking at individual premises but at a local area. The distribution area is anywhere between, say, on average, typically 100 to 200 premises. So, in our availability calculation, we are looking at how many premises in that distribution area have access to at least one fixed broadband technology. So you are right: category B means that 60 to 80 per cent of premises in the DA have access to at least one fixed broadband technology and, therefore—opposite—20 to 40 per cent do not.

Senator CONROY: Have access to one.

Ms Grainger: To one. There may be many premises in that DA who have access to multiple technologies because, as you are aware, HFC, DSL‑

Senator CONROY: But 20 to 40 do not have access to—

Ms Grainger: Any fixed broadband.

Senator CONROY: Any fixed broadband. That is all I thought it meant, but I just wanted to clarify; thank you.

Ms Grainger: Yes. Obviously this is fixed broadband itself and we consider fixed broadband separately to mobile broadband—

Senator CONROY: Yes; absolutely.

Ms Grainger: So that does not mean that mobile—

Senator CONROY: By definition, 98 per cent of Australians have access to Telstra's 3 to 4G network, so that is a moot question, according to Telstra's statistics. The report also indicates that up to 20 per cent of premises in band A have no access to at least one fixed broadband technology. Is that correct, on the same interpretation that you have just given?

Ms Grainger: That is right. That is our category: 80 to 100 per cent for category A.

Senator CONROY: The NBN Co employee that jointly owns a yacht with Mr Turnbull, Mr Rousselot, noted during the December hearing of the Senate select committee that the bottom three categories would be prioritised in the rollout; so that would be C, D and E?

Ms Grainger: Yes, Senator, that would be my understanding.

Senator CONROY: I am just confirming that the bottom three categories are C, D and E.

Mr Clarke: Senator—

Senator CONROY: I have not asked the question yet.

Mr Clarke: No, but may I clarify the premise that you have already put. The date of the evidence from Mr  Rousselot—could I clarify that?

Senator CONROY: It was the December hearing, which is—

Mr Clarke: We had not completed this analysis—

Senator CONROY: I am just going on what the man wrote in the strategic review—

Mr Clarke: Sorry; in terms of the strategic review.

Senator CONROY: Yes.

Mr Clarke: I apologise.

Senator CONROY: Mr Rousselot is an employee and—

Mr Clarke: Yes.

Senator CONROY: joint yacht owner with Mr Turnbull, and he stated, and it is in the transcript at page 49—

Mr Clarke: No; I am sorry. The document is the strategic review, not this report.

Senator CONROY: No.

Mr Clarke: Thank you.

Senator CONROY: This was evidence. He was not talking to the strategic review. We were having a conversation about the prioritising of the rollout and he stated that the bottom three categories would be prioritised in the rollout, and we have agreed that those categories are C, D and E.

Ms Grainger: Perhaps I could clarify. In terms of our report, C, D and E are the bottom three categories, but I recognise that we have passed all of our analysis to NBN Co in terms of the results and it is up to NBN Co to then work out the prioritisation.

Senator CONROY: No, but NBN Co are saying that C, D and E are the three that they are going to prioritise.

Ms Grainger: I would note that our summary report was released on 23 December and then obviously last week was when our full report was released. So potentially Mr Rousselot was referring to his understanding, recognising that we had not yet finalised our analysis.

Senator CONROY: What can I say? I do not share a yacht with Mr Turnbull, but Dr Switkowski promised me that he was an incredibly smart bloke and he had never worked with anyone as smart as him, so I am assuming he knew what he was talking about. I hesitate to be wrong on that, but I am just going to assume that Mr Rousselot knew what he was talking about. So the underserved premises, the 20 to 40 per cent of premises in band B and the 20 per cent of premises in band A, will not be prioritised. I am just trying to rigorously go through to understand where the prioritisation—which is not 'first'—will and will not take place. On your evidence, 20 to 40 per cent of premises in band B and 20 per cent of premises in band A, on the evidence of Mr Rousselot, will not be prioritised. It is just two plus two equals four.

Mr Clarke: I think we are very early in this process in terms of the rollout over the next few years, which is where—

Senator CONROY: How was Mr Rousselot able to write a strategic plan forecasting take-up rates and revenues—

Mr Clarke: The point I am making is that the company has not yet put down in detail what exactly will be the rollout plan over that period.

Senator CONROY: I am sorry; I consider the evidence—

Mr Clarke: As you are aware, they are still in the transition—

Senator CONROY: and the detailed answer—

Mr Clarke: and at this point we have only just published this full report; we have provided this full report to the company. The policy intent is quite clear and we will see how the company respond. Clearly, they will give priority and respond to the government's direction in this area. What exactly it means across the five bands that we have identified and how exactly they implement it is a question that will become apparent in the next year or two.

Senator CONROY: Mr Rousselot has been very clear about his perspective. Dr Switkowski has been very clear about their perspective. It is not for you to contradict them. They have made it clear. The first sentence in the executive summary to your *Broadband availability and quality: summary report* states:

The Australian Government has asked NBN Co, the company building the National Broadband Network (NBN), to prioritise the many Australians without adequate fixed line broadband in the rollout.

Mr Clarke: Indeed.

Senator CONROY: That is what you have said. But I can find no such request in the interim statement of expectations, just a direction that NBN Co provide information to the department's inquiry. So I have got a lot of woolly words from you and a lot of woolly words from Mr Turnbull but, when it comes to actually what matters—and you and I both know what that is: it is the statement of intent—it is not there.

Mr Clarke: So, Senator—

Senator CONROY: Has there been an update to a statement of directions?

Mr Clarke: There are three points. The policy intent has always been clear for the government in this area and the very evidence that you have quoted from Mr Rousselot and Dr Switkowski indicates that they are very conscious of the government's intent in this area and are working through their implementation. The second point is that, when the minister released this report, he reiterated that policy guidance to the company. I agree with you that the formal incarnation of a policy direction to this GBE is through the statement of intent, statement of expectations, and I would expect it to be reflected in that document very soon, but they have no doubt what the government's expectations are.

Senator CONROY: Expectations and statements of intent are two different things. I expected a couple of million homes to be connected; it did not happen though. So just because Mr Turnbull expects NBN Co to do something does not mean it actually happens.

Mr Clarke: But I reiterate: I think the evidence that you have already quoted from Mr Rousselot and Dr Switkowski illustrates that they understand exactly what is required and they are working at it, and I am confident that this requirement will be reflected in the next iteration of the statement of expectations.

Senator CONROY: So there is an iteration coming?

Mr Clarke: Indeed.

Senator CONROY: When is that expected?

Mr Clarke: It is a matter for the government, but there will be an updated one. The current one was clearly an interim or transitional one—

Senator CONROY: Okay.

Mr Clarke: And it logically follows that there will be another one and, indeed, there will be.

Senator CONROY: Will that follow Mr Turnbull's statement in November that underserved areas will be first?

Mr Clarke: We will see what language he has used—

Senator CONROY: Or will it be the weasel words that you have inserted into the debate?

Mr Clarke: I cannot predict what will be in that document.

Senator Fifield: Chair—

CHAIR: Yes.

Senator Fifield: I do not think it is fair to use that phrase to reflect on a witness.

Senator CONROY: I think if you were to read this morning's paper, you would find that a certain commentator in the newspaper described the words very accurately. I am just quoting a statement by an Australian columnist today where he described the words as 'weasel words'.

Senator Fifield: I just—

Senator CONROY: It is your favourite newspaper, is it not?

Senator Fifield: I just do not think you should reflect on a witness by using that phrase.

Senator CONROY: No; I am literally—

CHAIR: Senator Conroy, will you please refrain from using such words when you address a witness?

Senator CONROY: Sorry. I am actually quoting someone else; I am quoting a newspaper columnist. Would you like to write to them and tell them to refrain from using words such as that?

CHAIR: No, I would not.

Senator CONROY: And am I not allowed to refer to them?

CHAIR: Keep the level of civility high, please.

Senator Fifield: You were not quoting; you were—

Senator CONROY: Absolutely. I am borrowing them, to be fair.

CHAIR: Yes; you are borrowing them.

Senator CONROY: I am borrowing his quotes.

Senator Fifield: You are not a journalist; you are a senator.

Senator PRATT: Thank God for that!

Senator CONROY: Yes. Last week, as we have been talking about, the minister released a broadband quality and availability report on the myBroadband website, which we have talked about before. Could you provide an indication of what the purpose of that report is?

Mr Clarke: The purpose of the document that we have been discussing is to provide an assessment of broadband availability and quality at a level of granularity—spatial resolution, if you like—that is suitable to inform the company's prioritisation in the rollout. The website, of course, supports that by providing a more accessible version for the public to also view what our assessment concluded in the areas in which they live.

Senator CONROY: Is it the intention of the department to now keep the report up to date, as the new infrastructure is built?

Mr Clarke: We are looking at a number of ways in which this report and the website might evolve. The options that we are looking at closely now are, first, to add a capacity for people to measure their actual broadband experience—the speed test, if you will—and to send that information back through the website to the department so that we get data points on actual user experience rather than computer.

Senator CONROY: So no actual speeds are reflected in your report? I think there is one small subsection, which we will come to.

Mr Clarke: It is largely—

Senator CONROY: It is a model.

Mr Clarke: I will let Ms Grainger speak to that, but it is largely a modelled product.

Senator CONROY: It is a model.

Mr Clarke: As I said, given that the purpose was to inform rollout prioritisation, I think the modelling is fit for that purpose. But we would like to get richer data, so we are looking at the speed-test option.

Senator CONROY: What is your broadband speed at home, Mr Clarke? Did you go on the website and check? Did you do a comparison with your speed test?

Mr Clarke: I do not think I did.

Senator CONROY: I do not blame you.

Mr Clarke: I know the answer to the first part of the question.

Senator CONROY: Hopefully you are on the NBN and it actually does not matter.

Mr Clarke: No, I am not unfortunately.

Senator CONROY: Ms Grainger, have you plugged in at your own home and seen what theoretical speed you might be able to achieve and have you done a speed test?

Ms Grainger: Yes, I have, and I can tell you—

Senator CONROY: You are under oath; you are not allowed to just make up a speed.

CHAIR: Order, Senator Conroy! Ms Grainger, could you sit closer to the microphone or perhaps a little louder because I know that Hansard had some troubles hearing you.

Ms Grainger: My apologies.

CHAIR: Thank you.

Mr Clarke: Senator, I had not finished. You asked a question about future development of the site. We are working to add a speed test capability. It is not trivial to do that and we have to make sure that we get that right. Of course, what we do with the data that comes, how representative we believe it is and all the issues that we are working on—that is one development. Second, I would like to be able to publish more of the underlying data—

Senator CONROY: That was my next question.

Mr Clarke: My preference will be to publish it on data.gov.au, and we are working through the processes of approvals to do that. I am very conscious that many smart people will be able to interrogate the website and derive the underlying data. It would be better, in my view, for us to just publish it as a single authoritative reference set. The third development that we are looking at is how we can maintain and improve the product over time, because it is a snapshot, and I think it would be in the interests of good public policy in this area to keep it up to date if we can do so.

Senator CONROY: Thank you. I am fascinated in that Ms Grainger has tested her theoretical speed versus her speed test. How did it go?

Ms Grainger: Perhaps I can just clarify. The ADSL median speed that is on the myBroadband website is a median for the distribution area. So it means that—

Senator CONROY: So a median is not a speed that anyone actually gets?

Ms Grainger: No. If the median of the range of speeds—

Senator CONROY: I know what a median is, but I just wanted to confirm for anyone listening that a median is not an actual speed that any punter gets in their home.

Ms Grainger: Actually, we have had feedback that—

Senator CONROY: A mode might be a more indicative thing that says 'the most commonly occurring across this area is this speed'. That would actually be a speed. But a median is not anyone's actual speed, except by coincidence.

Ms Grainger: As I was saying, we have received feedback that a number of people are very close to the median speed for their area. But obviously, as we explain on the site, you can hover over that speed and there will be people getting lower speeds or higher speeds.

Senator CONROY: So how did you go?

Ms Grainger: I was very close from my personal home address.

Senator CONROY: Very close? Above or below? You are on oath.

Ms Grainger: I cannot remember. I think it is 16.46 megabits for the distribution area I am in and I think we get about 13 megs.

Senator CONROY: What is that as a per cent? Is that about an 80 per cent forecast? Would you be 20 per cent wrong on your median?

Mr Robinson: I think—

Senator CONROY: Mr Robinson, do you want to give us your personal speed test?

Mr Robinson: I would be happy to. As Ms Grainger said, we tried to go out of our way both in the report and on the website to explain what the numbers are and what they mean and that people will inevitably vary from median speeds because that is what medians are. We provided information on the reasons for that. In fact, on the website, you cannot actually get the results for your local area without there being information that pops up and explains that, because there are variances that come from a whole range of things, including the equipment that people are using in their individual homes et cetera. So all that is explained as best we can. Inevitably people's results will vary, but it is a modelled result for median speeds in their relevant areas.

Senator CONROY: Are the 700,000 premises, or the six per cent of the total, that are unable to receive a fixed broadband service mostly in areas where the NBN Co fixed wireless service and long-term satellite service will be provided?

Ms Grainger: I would need to take that on notice to make sure that my language is absolutely correct for you. The 700,000 premises are, as you would expect, distributed across the country. But, when we look at the analysis in terms of the remoteness classification, more premises without access to fixed broadband services are in the remote locations. So that may lead you to think about what particular solution they may receive via the NBN.

Senator CONROY: So 'more' would imply 51 per cent or 52 per cent?

Ms Grainger: Perhaps I could refer you to the remoteness results for our report in relation to states and territories. On page 12, figure 4 shows the distribution of broadband availability rated by state and territory. Then, if we go to page 20, there is the broadband availability by remoteness classification and this is the ABS classification in relation to that: major cities of Australia, inner regional, outer regional, remote Australia or very remote Australia. You will see that, with figure 9, obviously 'major cities' have the highest availability and 'very remote' sees the most premises in the E band. But the different relative results there are in that figure.

Senator CONROY: Did you test the median speed when it rained?

Ms Grainger: Rain was not an element that we considered as part of our analysis.

Senator CONROY: But even the minister has acknowledged that there are soggy areas that affect broadband speeds.

Mr Clarke: And the report specifically acknowledges that local factors do affect broadband performance.

Senator CONROY: Rain is not a local factor.

Mr Clarke: I have—

Senator CONROY: A local factor is the quality of the copper in the ground.

Mr Clarke: I am not in any way trying to dodge that point. The report is explicit that factors such as weather and interference et cetera have not been included in this analysis. It goes back to your—

Senator CONROY: So your median speed is in good weather when—

Mr Clarke: It goes back to your question about what was the objective of this report, and the objective was to inform the prioritisation of the NBN rollout. And that is it.

Senator CONROY: So it is a median speed. I just want to be clear and understand, as do people who are listening and watching and reading this transcript, that the median speeds that you are advertising are median speeds in good weather.

Ms Grainger: Perhaps I could provide some further clarification for you. The median DSL speeds are based on some empirical data, real-world data of a real-world experience of broadband against—

Senator CONROY: Did your empirical data test it during rain?

Ms Grainger: What I was about to add for your information was that we do not have information about when that was tested, but my understanding is that that was raw data that a carrier has provided us and, therefore, it is likely that those tests were done at different times of the day and night and at a range of locations across Australia.

Senator CONROY: It is good of you to try to tell me what you assume.

Ms Grainger: I cannot definitively say that there was rain.

Senator CONROY: Each area is different. Was it 16,000 or 20,000?

Ms Grainger: It was 20,000.

Senator CONROY: I am not sure one area of 20,000 could remotely be described as empirical when it comes to the weather. But, if you want to assert that, that is okay. I do not think you are doing that. I do not think the report attempts to do that. I just wanted to clarify that we have no knowledge of whether or not the tests or the median speeds take into account rain or the weather.

Mr Robinson: I think, as Ms Grainger said, they are 20,000 actual observations of speed tests. So they would cover periods of rain.

Senator CONROY: But are they familiar with the fact that the government is about to announce tomorrow drought relief? There are whole areas of Australia that are in drought. The last time I checked, the word 'drought' implied 'no rain'. So any single line that was tested in a drought affected area by definition, Mr Robinson, has not been tested when it has been raining.

Mr Clarke: This goes to the point again—and forgive me for repeating it—as to what the objective of this study was.

Senator CONROY: But I am not suggesting that.

Mr Clarke: The objective of the study—

Senator CONROY: Your officers are now trying to pretend that it took into account real-world things. I accept what you have written; I am just clarifying things.

Mr Clarke: It included a specific statement that local events, including weather events, are not included in this analysis.

Senator CONROY: No, but now there is an attempt by the officers to imply that it is robust and does.

Mr Clarke: No, not at all. They are saying that the 20,000 data points clearly included an average impact of weather. I absolutely acknowledge your point that the—

Senator CONROY: Except if there was any drought.

Mr Clarke: immediate impact of a weather event can be much larger than is indicated by the average.

Senator CONROY: Okay, we have agreed on that. I just want to ask about the 20,000 empirical. Was it one company or two companies or three companies?

Ms Grainger: One carrier provided that data to us.

Senator CONROY: Are you able to identify the carrier?

Ms Grainger: Perhaps I could take that on notice.

Senator CONROY: I would have thought you would have known; that is all.

Mr Clarke: I think Ms Grainger is taking it on notice in order to get permission from the carrier that—

Senator CONROY: Okay, that is fine. If you have to get permission to release that, that is fine. I totally understand.

Mr Clarke: Yes.

Ms Grainger: Yes.

Senator CONROY: The minister refers to 1.6 million premises having inadequate or no broadband. Is it your understanding that he defines the 920,000 premises in areas with an estimated peak median download speed of less than 4.8 meg? I am trying to understand exactly and make sure that we are talking about apples and apples—that the minister, you and I are talking about the same apples.

Ms Grainger: My understanding is that the approximate 1.6 million figure is a combination of two numbers in the report: the approximate 700,000 premises without access to a fixed-line broadband service and the approximately 920,000 premises which are in areas where the median peak speed is 4.8 megabits or below.

Senator CONROY: On a good day with no rain. Are you aware that, in an interview in April 2009 on Radio 4RO in Rockhampton, Mr Turnbull, as opposition leader, said that he was getting a download speed of 3.6 meg on a wireless card and—I quote—'from a practical point of view, that enables me to do everything I need to do'?

Senator PRATT: Everything?

Senator CONROY: 'Everything'. That is what he said.

Mr Clarke: No, we are not aware of that interview.

Senator CONROY: You are not aware?

Mr Clarke: No.

Senator CONROY: You might want to look it up—3.6 and he can do everything he wants to do. Does his claim now that less than 4.8 meg is inadequate underlie the fact that the expectation of broadband speed continues to increase? He defined 3.6 as absolutely fantastic and today 4.8 as being inadequate.

Mr Clarke: I am not familiar with the quote, so I have nothing to say on that matter.

Senator Fifield: How many years ago was that?

Senator CONROY: Sorry?

Senator Fifield: You said 'when he was opposition leader'.

Senator CONROY: Yes, and I said April 2009 on a 3G phone in Rockhampton. I want to talk about upload speeds.

CHAIR: Last question, Senator Conroy, before we have a tea break.

Senator CONROY: As I am changing topics, I am happy to have a break now.

CHAIR: We will have the break now.

**Proceedings suspended from 11:00 to 11:14**

CHAIR: We will resume. Senator Conroy, you have five minutes left for your questions.

Mr Clarke: Senator Conroy, I can give you an answer straightaway to a question that has been taken on notice.

Senator CONROY: If you are very quick.

Mr Clarke: You asked about the source of our 20,000 empirical data points. It is in fact published in the report in appendix (f) and it is Telstra.

Senator CONROY: I expected it to be Telstra; I just wanted to confirm that. Thank you. You have made an effort to calculate a median download speed. Did you do a median upload speed?

Ms Grainger: No, we did not.

Senator CONROY: Why not?

Ms Grainger: Senator, we did not have data available to us in that respect.

Senator CONROY: What? Nobody knows what their upload speeds are?

Ms Grainger: We did not have data available to us. Obviously, if you go online and go to speedtest.net—

CHAIR: Ms Grainger, could you speak up, please?

Ms Grainger: My apologies. No, we did not have the data available to us in that respect. We do set out in the report the download speeds and upload speeds in relation to each technology platform, but we specifically focused on download speed with ADSL—

Senator CONROY: We are talking about broadband quality and you identify five-meg upload as defining broadband quality and you have made no effort to test even the 20,000 Telstra lines for their upload.

Ms Grainger: We had download speed real empirical data available to us but we did not have the upload speed data available to us.

Senator CONROY: You have no actual data on upload speeds, which you define yourself as being five meg—you categorise five meg as your top. I do not know why five meg only is your top, but let us not have that argument today. You clearly attempted to get a median speed for downloads. How is any Australian meant to look at the website and think, 'quality broadband, on the department's definition, includes ''upload'' ' when you have not made any attempt to provide a median speed on upload in these areas?

Mr Clarke: We fully appreciate that the two numbers are both significant—agreed. That is not in dispute. I must go back again to the purpose of the report. The purpose of the report was to inform prioritisation of the rollout. Download speed, availability and quality we judge to be a good indicator to inform that process. It was the dataset most available to us.

Senator CONROY: I appreciate that.

Mr Clarke: I would love to include real data on upload.

Senator CONROY: I appreciate that the government does not understand the role upload plays. You do not have to go further than the last Senate committee hearing in Perth to hear a well-known RSP say this is about upload speeds as well. I am just confused why the department thinks that a website that does not provide any upload speed information is of any use in prioritising anything, when clearly it is vital to a broadband consumer's ability to use it. You define up to five meg as the top range—you have to have five to get your category A in quality. To not bother to try to use it when you are then recommending to the government‑‑

Mr Robinson: I think Ms Grainger did mention that, when looking at the various technology platforms and the benefits of each, we did consider upload speeds. That is identified in the report when we were assessing which technology platforms were secure or not.

Senator CONROY: I am intrigued by how HFC—with an upload speed of two, pretend, which would have been fascinated by your median speed of uploads—gets to be classified as a top quality A or B?

Ms Grainger: I can refer you to a section in the report—

Senator CONROY: I have read it. I laughed when I read it. I am about to use up my five minutes, so I will ask one last question and just thank you. As you know, I live in Williamstown, in Melbourne. Do you know what category Williamstown came up with? I am sure one of you must know. Just for the fun of it, take a punt—come on!

Mr Robinson: What did it come up with, Senator?

Senator CONROY: It is 'E'.

Ms Grainger: Was that 'E' for quality, Senator?

Senator CONROY: Yes, speed. So I am in the bottom. So I am looking forward to being prioritised, because we do not have any HFC in Williamstown. I am in the bottom category, so I cannot wait to get no upload speeds, at the price of $40 billion.

Mr Clarke: That last remark is not a reasonable—

Senator CONROY: It is an accurate statement of fact.

Mr Clarke: It is not—

Senator CONROY: But I have used my time up.

CHAIR: Thank you, Senator Conroy. Mr Clarke, just one question from me. Last September, at election time, about 240,000 premises passed under Senator Conroy's watch, in total. Is that figure correct, Mr Robinson?

Mr Robinson: Just a moment.

CHAIR: I am just going from memory.

Mr Robinson: At 8 September last year, there were 206,000 premises passed in brownfields areas.

CHAIR: Minister Turnbull discovered that some 70,000 premises could not be hooked to that the fibre had rolled past; is that correct?

Senator CONROY: No, that is not correct. They had not been connected yet.

Senator SMITH: Not that they could not be connected.

CHAIR: Mr Robinson, was it the case that some 70,000 premises had been included in that figure but could not be connected to?

Senator CONROY: No—'had' not been connected to.

Mr Robinson: There is a category of premises which is called Service Class 0. The comparable figure at 8 September, and it has increased after that—

CHAIR: First of all, could you explain the category 'connected zero'? Does that mean it just cannot connect to those premises?

Mr Robinson: At this stage they cannot connect; customers can't connect—

Senator CONROY: At this stage.

CHAIR: Senator Conroy!

Senator CONROY: Some of those—

CHAIR: Senator Conroy!

Senator CONROY: Some of those had been connected since 7 September.

CHAIR: Senator Conroy, I have the call. Mr Robinson, disregard Senator Conroy's question. So some 70,000? Is that the figure that could not be connected to?

Mr Robinson: It increased to 70,000. Typically they are multi-development units; that is apartment blocks or similar.

Senator CONROY: None have been—

CHAIR: Senator Conroy!

Senator CONROY: So they could be connected, then. Some have been connected.

Mr Robinson: If they are Service Class 0 customers, members of the public in those buildings at that point cannot get a service.

CHAIR: Has there been any advancement in technology design to actually hook those 70,000 people to the service?

Mr Robinson: I think that is a question best directed to NBN Co.

CHAIR: The previous government did include 70,000 in their rollout figures; is that correct?

Mr Robinson: The premises passed did include those. The NBN Co website now provides all that information, including premises passed, Service Class 0s.

CHAIR: Exactly, so transparency and honesty.

Senator CONROY: And some of those have been connected.

CHAIR: So, 70,000 were included and could not be connected to; that was clearly stated. That was under Minister Conroy at the time.

Senator CONROY: Don't mislead the Senate in your question or your answer—

CHAIR: Senator Conroy! Order! Senator Smith, you have the call.

Senator SMITH: Thanks very much. I am here in my capacity as a senator, but I want to start by letting you know that I have had large numbers of constituent inquiries being made to me in my capacity as a regional senator for Western Australia in regards to the Interim Satellite Service. I thought we might start with this question: have complaints and queries been raised with the department about access to the service?

Mr Clarke: Yes, they have.

Senator SMITH: Is it a small number of queries and complaints, or a large number of queries and complaints? How would you characterise the contact the department has had?

Mr Clarke: In national terms, a small and absolute number. But as a proportion of people in regional Australia seeking access to high speed telecommunications and broadband, it is a material number.

Senator SMITH: Absolutely. That is the critical point that I would like to start with. While this might be an issue that does not resonate with many Australians, it is resonating with those Australians across regional Australia in quite a serious way. I would like to test a couple of facts. Is it true that in December the Interim Satellite Service reached its capacity of 48,000 customers?

Mr Robinson: Yes.

Senator SMITH: Are new registrations now closed?

Mr Robinson: Yes.

Senator SMITH: Can you explain to me why that is?

Mr Robinson: Again, it may well be a question best directed to NBN Co.

Senator SMITH: They are coming, and they will get the question as well.

Mr Robinson: The short answer, I think, is that 48,000 services were purchased for the Interim Satellite Service. That was, in effect, the maximum connection amount. The number of active customers is a bit less than that because some people have connected and subsequently no longer have a service. The cap was 48,000.

Senator SMITH: In the public's mind, in the public consciousness, is 48,000 a figure that they are familiar with, or were they expecting much larger numbers of connections to be available to them?

Senator CONROY: That would be an opinion.

Senator SMITH: Senator Conroy, are you asking an opinion?

Senator CONROY: That would be asking an opinion.

Senator SMITH: Senator Conroy, we are friends. You are testing my friendship.

Senator CONROY: No, I am not.

Senator SMITH: You are testing my friendship.

Senator CONROY: Let's be clear: we're not friends.

Senator SMITH: Senator Conroy, for your own information—

CHAIR: Order! Senator Smith, you have the call.

Senator SMITH: Thanks very much, Chair.

Senator CONROY: You are not allowed to ask for opinions.

CHAIR: Senator Conroy—

Senator CONROY: Rephrase your question.

Senator SMITH: Let me put the question another way.

Senator CONROY: Rephrase your question.

CHAIR: Senator Conroy, you are not the chair.

Senator SMITH: Was it true that the former government originally announced that there would be 165,000 households and businesses eligible for the Interim Satellite Service?

Mr Robinson: I would have to take that on notice.

Senator SMITH: Please do. Is it true also that in early 2013 that was lifted to 250,000 by Labor—by the former government?

Mr Robinson: I would have to take it on notice, but there were some figures used that were both satellite and fixed wireless. So the numbers you might be using may be both, but I will confirm that and take it on notice.

Senator SMITH: On notice. By going from 165,000 to 250,000 when capacity was only available for 48,000, who would have made those changes or authorised those changes in terms of what was being communicated to the community in terms of eligibility?

Mr Robinson: I would have to take that on notice.

Senator SMITH: The first that you knew about it, Mr Robinson, was reading it in the paper, seeing it in a pamphlet?

Mr Robinson: There were corporate plans released for NBN Co and they had estimates of take-up in them. Of course we were familiar with all of those. There was a difference made between premises covered by the satellite and the take-up of services on that satellite service.

Mr Clarke: Senator, I have confirmed with officers present. I believe your numbers of 165,000 and 250,000 are correct.

Senator SMITH: Thanks very much, Secretary. Who would have made the authorisation to publicly announce eligibility of 165,000 and then to take that to 250,000? Who would have allowed that to happen? Is that a question for NBN Co, or were you familiar with the contemplation that might have been going across government about it going from 165,000 to 250,000?

Mr Clarke: What you have clarified is the very important distinction between eligibility and, if you like, footprint or coverage of the service versus the physical capacity of the service at 48,000. As to the calculation between 165,000 and 250,000 I am not familiar with the detail of it. I imagine it was of a technical coverage nature, but the 48,000 cap remained firm.

Senator SMITH: Were you alarmed, given your experience in communications policy, to learn that there was an interim satellite service that had a capacity of 48,000, but people were then being told that 165,000 people would be eligible and then told in July 2013 that 250,000 people would be eligible? Did that ring any alarm bells?

Mr Clarke: I will not go into the space of alarm as an emotion.

Senator SMITH: You would be alert but not alarmed.

Mr Clarke: No, I will avoid describing emotions in this process, if you do not mind.

Senator SMITH: That is my job and Senator Conroy's job.

Mr Clarke: The distinction between eligibility and coverage as one analysis and a physical capacity that is bought as another is quite real. There would have been, I am sure, a forecast that said that 48,000 would be sufficient. That forecast turned out not to be accurate.

Senator SMITH: Can I clarify something?

Senator CONROY: You weren't even in the department so don't make accusations that you can't possibly back up.

Mr Clarke: What accusation did I make, Senator?

Senator CONROY: You just said you assumed.

CHAIR: Order!

Senator CONROY: That is not—

CHAIR: Order!

Senator CONROY: You advance your assumption—

CHAIR: Order! Order!

Senator CONROY: and you were not in the department.

CHAIR: Order! Senator Conroy, order! Senator Smith, you have the call. Continue your questioning.

Senator SMITH: Thank you very much, Chair. Let me use the highly emotional language that going from 48,000 to 165,000 to 250,000 is extreme. I am surprised that the outrage that I am hearing from constituents has not been louder than it already is, and it is very, very loud. Let us move on from that point because I think it has been made. This is a question I will put to NBN if you do not have the answer. What is the current cost of the interim satellite service, in your understanding?

Mr Robinson: It is probably a question best put to NBN Co. I can take it on notice.

Senator SMITH: Perhaps you can let me know on notice whether or not my estimate of $350 million is accurate or, if it is not accurate, what the difference might be.

Mr Robinson: I will take it on notice, Senator. That is approximately what I think it would be.

Senator SMITH: Thanks very much. Based on my calculation, that is about $7,300 per user.

Mr Robinson: Yes, Senator.

Senator LUDLAM: Chair—

Senator SMITH: Senator Ludlam, your questions will come later, I hope. I aspire to be in Senator Fifield's spot, but that is a long way away at the moment.

Senator LUDLAM: I can't wait.

Senator CONROY: In getting—

Senator SMITH: Senator Conroy, we have had this performance at the Senate select inquiry and now we are having it at the Senate estimates inquiry. Is there any end?

CHAIR: Order! Senator Smith, stick to your question because you are running out of time fast.

Senator SMITH: Thank you, Chair. I want to go on to the customer experience then. What is the practical experience for customers who are using the interim satellite service?

Mr Robinson: Senator, there are two issues at the moment. Of course, the minister has made some public comments about them. One is that eligibility is closed, as you asked about, and the other one is service quality on the interim satellite solution which has also declined substantially. Concerns from members of the public are coming on both those fronts.

Senator SMITH: What I am hearing from constituents is that children trying to use the internet to do homework et cetera—that broadband experience that they were hoping to get through the interim satellite service is not being delivered. When we look at those who are using the interim satellite service, what is happening? Why is there a disparity in the customer experience?

Mr Robinson: Take-up of the satellite in terms of usage of data et cetera has increased substantially. The experience, the example you give, is consistent with representations that the department and others are getting. It does vary. It varies across parts of the country and it varies at the time of day et cetera. But the quality of service has declined substantially.

Senator SMITH: When I have made inquiries on behalf of constituents I have been pointed to the activities of the retail service providers themselves. Can you share what you understand some of the retail service provider behaviour to be?

Mr Robinson: Some of the retail service providers did sell plans on the interim satellite service with high data usage allowances. That is probably a contributing factor to the issues that have arisen.

Senator SMITH: What remedies are you considering?

Mr Robinson: The minister said that the government is looking at options at the moment and that consideration is still occurring. I am not in a position to comment, really, Senator.

Senator SMITH: My understanding is that the average cost for those who are using the service for the interim satellite service itself is $7,300 but the consumer cost is still in the order of $50 to $60 a month; does that sound right?

Mr Robinson: That sounds right, Senator, yes.

Senator SMITH: That is a huge gap.

Mr Robinson: Yes, Senator.

CHAIR: Thank you, Senator Smith. Any further question you can put on notice—

Senator CONROY: Just before—

CHAIR: Senator Conroy, I am speaking. I thank you for your attendance. I now call officers from NBN Co.

Senator CONROY: Just while the officers are changing over if I could indicate that, because the chair has failed to allocate sufficient time for questions, you will be getting called to the Senate select committee in the near future so we can complete the questioning. But the fact that insufficient time has been allocated is entirely in the hands of the chair.

CHAIR: Tough. It does not worry me.

NBN Co Ltd

[11:30]

CHAIR: Welcome, Dr Switkowski. Would you like to make an opening statement? I am sure you would.

Dr Switkowski: I would. Thank you, Chair, for the opportunity to make an opening statement. It gives me the chance to update the committee on the transition process within NBN and on some recent and upcoming events and detailing some of the milestones in the company's progress.

Last Friday, as has been reported in the media, we released NBN Co's first six-month report which outlined our financial and operational performance for the period up to 31 December. This, of course, was a period in which there was a change of government and a change of management and strategy.

Our half-year report was evidence of the government's call for greater transparency and timeliness of information and we aim to continue this reporting on a quarterly basis. The half year will have a full presentation and the interim quarters will give a progress report on network statistics and rollout data.

The report is now on the public record so I do not propose to go through these details here today. I will summarise by saying there remains a lot to be done but the company is making progress in some important areas. There is one example. The transit network program is running on schedule and within budget. This is a critical bit of infrastructure that links towns and cities to all the major network components and underpins the fixed wireless network, the satellites and any fixed-line technology deployed in the future. Thirty-eight thousand kilometres of transit fibre has been deployed and 94, out of a planned 121, points of interconnect are complete, representing 80 per cent of the points of interconnect program.

In addition, and relating to other questions that have occurred earlier today, preparations for the launch of two satellites next year, in 2015, remain on track for key milestones, including earth station construction around the continent. There is a separate review of our fixed and wireless satellite strategy under way. We expect to have those findings in a few weeks time.

These are positive, encouraging signs that elements of the build are going well, but we are still some distance from getting the entire project on track. As we do this NBN Co is in a period of transition and this will also continue for some time.

The strategic review found that the fastest and most affordable way to deliver the NBN is to apply a mix of technologies based on their best fit with the infrastructure already in place. NBN Co is now making preparations to implement the strategy under the government's direction. To manage and to drive the transition a transformation management office has been established within NBN Co under the leadership of Mr Rousselot. This office is engaging widely with staff, with our delivery partners, our customers, our suppliers and the community to ensure that the findings of the review, once agreed and endorsed by the government, are understood and that the next steps are successfully implemented.

The transformation office is looking at all of our current inflight projects, of which there are a great many, to assist their alignment with the new strategic direction and to map the existing set of business relationships and governance structures. The aim is to build a whole-of-business strategy with which all business units are aligned.

As part of that an employee engagement survey is about to be initiated with our nearly 3,000 employees to give us a cultural baseline to assist the incoming CEO, Bill Morrow, in his review of the organisation and its strengths and against which the efficacy of future changes can be measured.

Meanwhile, the fibre to the premise rollout continues, and our aim is to stabilise the process and give contractors, suppliers and customers more visibility of forward plans and greater certainty. NBN Co is working with our delivery partners to address planning and construction issues that led to the delays in the past. I will give you an example of how this is going. We have talked about this in part in the past.

NBN Co's reporting and our contracts for delivery partners in previous times had a strong focus on premises past. That was the subject of some inquiry a few minutes ago. Look, it is axiomatic that you get the outcomes. You incentivise whether they are desired or not. The focus on premises past led to a situation where running fibre up and down streets was prioritised over actually connecting it to buildings. The result was that a high number of premises that simply could not connect to the network existed, despite being counted as having been passed, a correct count but meaningless.

We are now working productively with our delivery partners to ensure the incentives go to serviceable premises and retail service providers are able to connect end-users quickly and efficiently.

NBN Co is also working as quickly as possible on the required commercial negotiations product development policy arrangements and technology testing that will underpin the new direction and the future rollout. We have some trials under way. Technology testing is being carried out through a series of programs that will help the company incorporate a broader mix of technologies and move the rollout to scale.

A fibre to the building pilot will test delivery of VDSL broadband to end-users in 10 buildings in Carlton, Brunswick and Parkville in Melbourne. Fibre optic cables are being delivered to a telecommunications connection box in the building which is then connected to the existing in-building wiring, copper wiring. Retail service providers will then be able to deliver fast broadband to each premises, particularly as they are part of the design of the whole process.

A technology trial in December last year produced very fast download speeds, in excess of 100 megabits per second, and upload speeds approaching 50 megabits per second in the one trial that we had completed by then.

A fibre to the node build pilot is set for two locations near Woy Woy on the New South Wales Central Coast and Epping in Melbourne's northern suburbs. We will construct two small-scale copper serving area modules and erect kerbside cabinets. NBN Co will then invite RSPs to participate in the fibre to the node end‑user trial to test the delivery of high speed broadband to about 100 premises in each location and then to design the deployment processes together so that we can upscale to the level we need.

Just finally on disconnection, because that is looming on the horizon, let me emphasise what this means. On 23 May we will reach the copper disconnection date for the first 15 fibre serving areas. This means nearly all existing landline, phone and internet services in these areas will be disconnected from the copper network. If residents and business owners want to continue these services they need to switch across to NBN.

Disconnection is not only an operational issue. It is also a very complex communications project which NBN Co has been working on collaboratively with retail service providers, with government application providers, industry and consumer groups for some time. We are working to ensure that the disconnection process is as smooth as possible and that everyone in these areas knows what to expect and what to do. This includes being very sensitive to the requirements of the more vulnerable people in our communities.

We continue to communicate through a range of measures, including through direct mail, local advertising, information kiosks, doorknocking and engagement through community groups and local advocates. Importantly, RSPs and application providers are also directly engaging their customers to assist them in this process.

Chairman, I conclude that, along with our continuing construction work, the trials, pilots and reviews all form a vital part of the forward direction of NBN Co. Our focus for 2014 will be to learn from our past experiences, to transform the company in line with the advice we receive from government and to deliver the NBN to more Australians sooner and at lower cost.

I have a part of my team from the NBN Co executive here. You will see John Simon, Kevin Brown and Robin Payne. Between us we will endeavour to answer all your questions. Thank you.

CHAIR: Thank you, Dr Switkowski. Please note the presence of media here. I am sure you are aware of that. I am sure no‑one has any objections to that. The call goes to Senator Conroy.

Senator CONROY: Thank you. I appreciate that you had a comprehensive opening statement. I was just wondering whether we could get a copy because you were reading very fast to try to get it done as quickly as you could. We have to officially table it as a formal process. Have you got a copy? It will be circulated. Thank you.

I noted you made some commentary on past versus connected. Can I just clarify that the HFC network, which you have identified of 2.3 million or 2.5 million homes as a footprint?

Dr Switkowski: Closer to three million.

Senator CONROY: Is that connected to three million homes?

Dr Switkowski: Sorry?

Senator CONROY: Is that connected to three million homes?

Dr Switkowski: No.

Senator CONROY: So that would be a meaningless number then?

Dr Switkowski: It depends on the question.

Senator CONROY: You define passing a premise with a cable as a meaningless number. I am pointing out to you that the number you are claiming that is passed by HFC is equally meaningless. The take-up of Telstra and Optus of HFC is roughly 33 per cent after 15 years. I am just trying to understand: are you counting, for the purposes of your deployment model, the roughly 65 per cent of Australian homes that are not connected to the HFC model?

Dr Switkowski: I am not sure that the analogy is valid but let us assume—

Senator CONROY: You used to own it. You rolled one out.

Dr Switkowski: In the case of the HFC footprint, if you are in the footprint and unconnected you can call up Optus and Telstra and be connected and probably within a number of days.

Senator CONROY: You actually have no idea what you are talking about?

Dr Switkowski: No.

Senator CONROY: You know that, don't you?

Dr Switkowski: Let me finish the answer.

CHAIR: Senator Conroy, order! Senator Conroy, will you let Dr Switkowski answer.

Senator CONROY: That is the danger of being 10 years out of date.

Dr Switkowski: We have had this debate in previous forums. In the case of the figure that was used to measure the network rollout, which was premises past, it passed a number of premises which at the time could not be connected no matter how—

Senator CONROY: Have any of them been connected since then?

Dr Switkowski: Some have been.

Senator CONROY: They could be connected—

Dr Switkowski: The technical solution for connecting multi‑dwelling units has only been recently developed and deployed.

Senator CONROY: No, that is the one you are talking about for VDSL, which I have no problem with as a technology. But you have continued, since 7 September, to connect units that were classified service class 0 with the original fibre to the apartment. Your continued representation that they could not be connected is at a point in time a mislead of the Senate, because they could be connected once their design was completed. It was taking longer than was originally hoped but to continually make the point that they could not be connected is just to mislead the Senate.

Dr Switkowski: No. In the context of what is the correct or the better metric both to inform users as to the size of the footprint and to give the people doing the rollout the incentive to do the right thing, simply to roll cable down a street is not the right metric.

Senator CONROY: Like Optus and Telstra did? To simply roll cable down the street?

Dr Switkowski: And right behind that you could place an order and be connected to the cable network.

Senator CONROY: And 65 per cent of Australian homes are not connected to the HFC cable where they are in the footprint?

Dr Switkowski: Actually on that one you are probably not right, with respect, because the 30‑odd per cent of the cable footprint that has a cable subscription television service are not the same 30 per cent that was there last year or the year before. I suspect we will find, and here I am guessing, more than half the footprint has a lead‑in and is connected.

Senator CONROY: No. When I moved house, to be fair, and I changed my subscription to my new house, I did not pull them out of the wall.

Dr Switkowski: That is right.

Senator CONROY: Your semantics—

Dr Switkowski: But that is—

Senator CONROY: That still leaves 50 per cent.

Dr Switkowski: Whatever the number is.

Senator CONROY: Fifty per cent of your three million is a meaningless number.

Dr Switkowski: No, because they can order a service.

Senator CONROY: You can order a service from NBN Co.

Dr Switkowski: I have not done it recently but I am asserting that they could call Telstra or Optus and get a service.

Senator CONROY: Not an MDU from Optus.

Dr Switkowski: You will not have that company saying—

Senator CONROY: His name is Renai LeMay. I suggest you read about his travails in trying to get himself connected to HFC in his footprint. They will not do it. He lives in an MDU and they will not do it. How can that be the case in your world, Dr Switkowski?

Dr Switkowski: It may have something to do with Optus's diminishing interest in that network, which is not the case with NBN Co.

Senator CONROY: I think he has been doing it for a lot longer than NBN has been on the table. I think he has had that problem. Maybe he is just a one‑off Australian citizen.

Dr Switkowski: Your line of interrogation goes to the relevance of a measure that measures simply linear kilometres of cable strung against a number of premises that can order a service and get it. I would say the latter measure is more relevant.

Senator CONROY: You are misrepresenting Optus's rollout because you actually do not know anything about it.

Dr Switkowski: I am not actually interested.

Senator Fifield: Chair, I was hesitating to interrupt Senator Conroy's line of questioning. Both in this bracket and previously with the secretary of the department, Senator Conroy has developed a pattern of accusing witnesses of misleading in various ways. Misleading is a very serious charge and I am sure that Senator Conroy does not really mean that. I would just draw to your attention that it is important that colleagues do not reflect on witnesses. It is not the way that these proceedings are appropriately conducted.

CHAIR: Certainly, minister.

Senator CONROY: So is he chairing it or you?

CHAIR: I am chairing it.

Senator CONROY: Good.

CHAIR: Senator Conroy, you have got the call.

Senator CONROY: Could I also just indicate that because the chair and the majority of the committee refuse to allocate sufficient time for us to complete all of our questions we will be calling you to a Senate select committee. Originally you could not make the date because you were chairing Suncorp. It has been moved to the 12th, I am guessing. I wanted to indicate to you, so you have got it on the record, we will expect all of your direct reports, Mr Rousselot and others included, on that date to complete our questioning of you on this and a range of other questions we will not get to today. I wanted to put that on the record upfront so that we all know that one of the reasons you will be forced to come back is the filibustering taking place from the Chair and the deliberate reduction of the amount of time available for senators from the opposition to ask questions. I just wanted to give you the heads‑up on that one.

CHAIR: Senator Conroy, can I just add we have over three hours here. You have been—

Senator CONROY: Of which you are allocating an hour and a half for your team to ask questions.

CHAIR: No, that is simply wrong. You have been allocated two hours.

Senator CONROY: How kind of you!

CHAIR: Listen to me. You have been allocated two hours, the Greens 40 minutes, and the coalition just 35  minutes.

Senator CONROY: How kind of you!

CHAIR: If those people do not use that time we will come back to you.

Senator CONROY: How kind of you!

CHAIR: But you have been issued the lion's share.

Senator CONROY: How kind of you to say we can only have, as a committee of the parliament of Australia, three hours to question a $40 billion investment! That is what I call increased transparency under the Turnbull portfolio! How kind of you to allow us to have—

CHAIR: Senator Conroy, we could argue it but you might want to go on with your questions, perhaps, and use the time.

Senator CONROY: I will. I noted from an article in ZDNet on 17 February that some 7,800 premises from the TransACT fibre deal will be added to NBN Co's premises passed for March. Is that correct?

Dr Switkowski: Yes, having acquired those. Now that they are customers they will be added.

Senator CONROY: My understanding, when the original deal was announced, was that Mr Turnbull and Senator Birmingham expressed outrage that they could possibly be included in a premise count. Have they indicated that to you at all?

Dr Switkowski: I have not had that conversation.

Senator CONROY: Absolute outrage; it was a rort to include those numbers towards your target. That is what they expressed previously. I am just checking to see whether they have done it again.

Dr Switkowski: What I can say, because it has been the subject of our own internal executive conversations, is that we will flag any additional customers that have been included because they have been acquired in that way, just to make it transparent.

Senator CONROY: No. To be clear, I indicated they would not be included for the purposes of that, to avoid that exact same thing. I just wanted to know whether the minister or Senator Birmingham, Parliamentary Secretary Birmingham, had been in touch with you to express their outrage at your decision.

Dr Switkowski: No.

Senator CONROY: Thanks. I am shocked! But more importantly, is this 7,800 premises that you do not need to build to reach your low-ball target of 357,000?

Dr Switkowski: No.

Senator CONROY: You are expecting to make 350,000 plus the 7,000?

Dr Switkowski: If you want to add it in that way, yes.

Senator CONROY: Thanks. Do you recall the graphs of the various rollout trajectories for NBN Co that I showed you at the December hearing of the Senate select committee?

Dr Switkowski: Generally.

Senator CONROY: During that discussion I noted that NBN Co was passing, on average, about 5,000 premises per week. I also noted that if NBN Co plateaued at its current level of activity NBN Co would easily pass more than 400,000 premises by 30 June 2014. I do recall, Dr Switkowski, you took a very dim view of this 5,000 average, given that it included downtime over the Christmas break. What is NBN Co's current weekly average?

Dr Switkowski: Somewhere between 4,500 and 5,000 premises passed.

Senator CONROY: I also note that Mr Adcock said last night that NBN Co expects to be doing 6,000 premises by 30 June. Is that correct?

Dr Switkowski: That was the statement that was made, yes.

Senator CONROY: I have been doing some maths of my own. NBN Co's weekly average for brownfield premises—and I think you are roughly indicating this—passed over the past 17 weeks is about the 4,500. If you exclude the two weeks Christmas shutdown where contractors appear to have downloaded tools, it comes to 5,078, between, as you said, 4,500 and 5,000.

If you extrapolate 5,000 premises, which is less than your own chief operating officer is indicating, to 30 June, and there is no Christmas shut down between now and 30 June—that is right, isn't it?

Dr Switkowski: Just Easter.

Senator CONROY: You are having an Easter shutdown as well?

Dr Switkowski: I am just reflecting how the industry operates.

Senator CONROY: Fantastic. NBN Co gets to slightly more than 400,000 premises. Even if you take the 4,500 weekly average and assume a steady linear growth to Mr Adcock's 6,000 per week by 30 June, NBN Co will still pass more than 400,000 brownfield premises by 30 June. Without you having done the maths and hoping that I am not seriously misleading you at the desk, does that sound about right?

Dr Switkowski: Your algebra is certainly right.

Senator CONROY: To meet the strategic review target of 357,000, NBN Co now only has to pass 45,295. I probably included the TransACT deal in your target there.

Dr Switkowski: Yes.

Senator CONROY: I appreciate that point. Allow a little movement because of that. So you only have to pass 45,000 premises in 19 weeks from the week ending 16 February? That is only 2,300 roughly a week, which is about half your weekly average over the past four months. Even without the TransACT deal, you will need to pass 2,794 premises a week to meet the 357,000? So you only need to pass 2,700 homes to meet your own target each week, which is basically half your own forecast rate today?

Dr Switkowski: I think you are generally right. Just to make it easy, from today's level of homes passed, with the 357,000 number, a weekly run rate of about 3,000 homes passed will get us there.

Senator CONROY: You are planning on being at 6,000. I am agreeing with you but you are planning on being at 6,000.

Dr Switkowski: We are. I hope to be in front of the committee after June explaining how we did better than the early forecasts.

Senator CONROY: If you set the bar as high as a pencil on the floor you can get over it. But well done. Seriously, you actually set a target so low that it is lower than when Malcolm Turnbull accused NBN Co of doing an arthritic snail. You actually in your strategic review set a target that is an arthritic snail.

CHAIR: Senator Conroy!

Senator CONROY: Slower than an arthritic snail.

CHAIR: Senator Conroy, address the minister by his correct title, please.

Senator CONROY: Sorry, Minister Turnbull.

Dr Switkowski: Recall the strategic review made the forecast based upon their analyses last October and November of the history of the NBN and the then run rate, and they put out a number that was 357,000 homes passed which, at the time, looked consistent with what we might be able to deliver if we managed to straighten out the whole production line. Now that we are three months further in and three months out from the end of the year and we have got a more reliable fix on the run rate, can I say a little more than 357,000 homes by year end, while happily will be a reasonable result in the context of expectations, is still not an acceptable number. It is too low.

Senator CONROY: I am intrigued because you do remember you went to Blacktown. There was a YouTube video of it. I know you love YouTube videos. On 8 November you went to Blacktown with Minister Turnbull. Do you remember that?

Dr Switkowski: I remember the experience, yes.

Senator CONROY: The experience, yes. You stood next to the minister when he said they would pass 450,000 premises by 30 June 2014. You did not correct him at the time. I am just intrigued. It was 8 November. It was after the date when you just suggested you were doing all of your calculations. You did not turn to him in the video and say, 'Minister, no, we are only going to pass 357,000.' Why was that?

Dr Switkowski: 8 November was five to six weeks before the end of the strategic review. I did not have any numbers at that point.

Senator CONROY: On what basis did Minister Turnbull pick 450,000?

Dr Switkowski: I think we had that discussion last time. I cannot explain Minister Turnbull's reasoning for that number but I can kind of reconcile it with the numbers that were being floated around at that stage, which had started at 600-plus thousand and were edging their way down, and they had probably moved through the 450,000 mark at that point. They got to 350,000 on 12 December.

Senator CONROY: Minister Turnbull, on 8 November, with you standing next to him, said 450,000 premises and you said nothing.

Dr Switkowski: I had no basis for saying anything at that point.

Senator CONROY: Because I know you are always interested in accuracy, we have someone online who has been listening to the debate and they live with an Optus cable going past their house. They have actually just phoned Optus and asked to be connected but were told that even though the cable runs past their place it is not available to them. I just wanted you to know that there are two Australians now that you are aware of. His tag is scottatron. He has just tried; that is two. Perhaps we will discover three or four before the end of the hearing. But don't worry. In your world, Optus can connect everybody. And this is long before the NBN came on the—

Dr Switkowski: Senator Conroy, you are misrepresenting the discussion.

Senator CONROY: I think *Hansard* will accurately record the discussion.

Dr Switkowski: The relevant point was that when the cable rollout went out for subscription television, people could order a service and get it. There was not a category—

Senator CONROY: What year was that? Was it 1995 that you were involved in that?

Dr Switkowski: It was.

Senator CONROY: And in the year 2014—

Dr Switkowski: Excuse me. There was not a category that said 30 per cent of the premises that we pass with the cable rollout cannot be connected. That is what is happening.

Senator CONROY: And NBN Co—

Dr Switkowski: That is what was happening with NBN Co.

Senator CONROY: I am sorry; I have accused people of misleading but you are simply lying to the committee now and misrepresenting service class zero.

CHAIR: Order!

Senator CONROY: You should be ashamed of yourself.

CHAIR: Order, Senator Conroy!

Senator CONROY: That is a straight lie about—

CHAIR: Senator Conroy!

Senator CONROY: connecting Service Class 0—

CHAIR: Senator Conroy!

Senator CONROY: since the election, and you know it.

CHAIR: Senator Conroy, I ask you to retract what you just said.

Senator CONROY: No, absolutely not.

CHAIR: The committee will be adjourned while we have a private meeting.

**Proceedings suspended from 12:03 to12:05**

CHAIR: The committee will resume. Senator Conroy, I ask you to retract what you said earlier on.

Senator CONROY: I retract.

CHAIR: Thank you. Continue your questioning.

Senator CONROY: Dr Switkowski, as we have discussed, the strategic review assumes a very slow fibre rollout in the revised outlook, even slower than the minister was forecasting in November. Because of the slowness of that rollout, the completion date in the strategic review gets to be pushed out to 2024; is that correct?

Dr Switkowski: Of the original plan, that is correct.

Senator CONROY: The strategic review's plan. Its forecast of the completion date for the purposes of its forecasting of the costs and everything—

Dr Switkowski: For the multi‑technology mix model?

Senator CONROY: No. This is for the—

Dr Switkowski: For the fibre to the premises model?

Senator CONROY: Yes, fibre to the premises.

Dr Switkowski: That was extended to 2024.

Senator CONROY: Given that NBN Co is currently tracking at about twice the rate assumed in the revised outlook just to 30 June, what will be the effect of this faster rollout on the completion date assumed in the strategic review?

Dr Switkowski: This is symptomatic of the forecasting methodology that used to be used, and that is—

Senator CONROY: We are talking about yours.

Dr Switkowski: No. That is, you take the run rate in the early months of a rollout and then attempt to extrapolate 10 years on the basis of variations. If the run rate was twice as fast for a month, you would then increase the outlook proportionately. That does not make any sense at all. So whether we pass 5,000 homes a week at the moment, 4,000 or 6,000 is immaterial to our judgement as to what is going to happen in 2020.

Senator CONROY: No, I am actually asking you about what is happening right now, in that you are exceeding your own forecast.

Dr Switkowski: At very low numbers.

Senator CONROY: And you are exceeding your own forecast and forecasting to increase—

Dr Switkowski: While we re-engineer the processes those numbers are going to vary. Hopefully, they are going to vary—

Senator CONROY: They are not varying at all. They have been consistent now for 17 weeks in a row.

Dr Switkowski: At a very low level. Hopefully, they will increase—

Senator CONROY: No, you are actually increasing them.

Dr Switkowski: As we must.

Senator CONROY: You have actually increased them. The point I am making is that, with the number you have forecast, you are already easily surpassing the number.

Dr Switkowski: I would never, with three per cent of the task done, revise my estimates 10 years out on the basis of that experience.

Senator CONROY: You have made a forecast, on the basis of no information whatsoever, to do an entire rollout of—whatever you call it.

Dr Switkowski: We have devised a strategy in terms of the technology choices and how we will go about the rollout; that is true.

Senator CONROY: You have done an eight‑year rollout plan and a business model based on the exact same type of assumptions.

Dr Switkowski: But these are not—

Senator CONROY: So it is not credible for one set but credible for the ones you want to put your name to.

Dr Switkowski: In any business, in an early stage, as you gain experience and as you make the sharp revisions that we are making, changes in the performance are not going to be reflected in a changed estimate 10 years out.

Senator CONROY: But you are prepared to put your name to forecasts eight years out?

Dr Switkowski: The strategic review laid out expectation and scenarios. The forecasts—

Senator CONROY: It is yours, isn't it? It is yours.

Dr Switkowski: The forecasts that we will be accountable for will be published when we produce our 2014-15 budget and then the 2014-17 corporate plan. We foreshadow that the next step in the strategic review process is to take the strategy, subject of course to government feedback, and then reduce it to practical, measurable milestones over the next one to three years.

Senator CONROY: I am very confused by your evidence, Dr Switkowski. You are prepared to stand behind your own forecasts done by Mr Turnbull's mate. You are prepared to sit there and say that, with just three per cent done, you can extrapolate a figure, but you are not prepared to take any other extrapolation. You are absolutely changing your story to suit the facts.

Dr Switkowski: No, I am acting in a very commercially normal way.

Senator CONROY: You are absolutely changing your story to suit your own facts.

Dr Switkowski: Let me give you another example, Senator Conroy. As we revealed on Friday of last week, the total investment so far in NBN Co approaches $7 billion for three per cent of the build. If you—

Senator CONROY: Dr Switkowski—

Dr Switkowski: Excuse me. If you extrapolate that by a factor of 30, you get $210 billion.

Senator CONROY: What an absurd—

Dr Switkowski: Is that a sensible thing to do?

Senator CONROY: Did you say you were applying business principles?

Dr Switkowski: Hang on a minute. I am giving you a kind of reasoning that I think is closer to the way you are coursing this conversation. You cannot just take numbers without understanding exactly where you are in the history of a particular project and then make a judgement 10 years out. As your reaction suggests, that would be foolish.

Senator CONROY: It would be dishonest of anybody to sit there and say that the capex cost of the transit network can be divided into the number of connections. That would be seriously dishonest. So to talk about $7  billion, of which a couple of billion is the transit network to make every single home in the country work, is just a dishonest representation.

Dr Switkowski: Senator Conroy, you are contriving again; you complain of this allegation of dishonesty. What I am saying is that you cannot take one figure and then say therefore the end result is going to be a multiple of that figure at this stage of a project of this magnitude and this complexity. Our forecasts are much more nuanced than that and, I hope, rooted in experience and actual performance than simply a linear extrapolation on the trend over a couple of months.

Senator CONROY: We established at the December hearing that one result of this slower rollout that the strategic review artificially places is that some $11.6 billion in revenue is lost and pushed out beyond 2021. So $11 billion of revenue because of your decision to go slower is pushed out into the never-never for the purposes of your calculations.

Dr Switkowski: But Senator Conroy—

Senator CONROY: Could I ask my question? Dr Switkowski, what would be the effect of a faster rollout on NBN Co's revenue in the revised outlook for the years 2014 to 2021 relative to the strategic review's forecast?

Dr Switkowski: Two things. Firstly, you have just accused me of not slowing the rollout because the figures are higher. Second point—

Senator CONROY: There are two very separate points.

Dr Switkowski: The second point is that, if we can accelerate the rollout, that will be good for NBN and it will be good for Australians. That is what we are trying to do.

Senator CONROY: What would be the result for the faster rollout for revenue?

Dr Switkowski: I cannot do that calculation in my head.

Senator CONROY: Would it be fair to say you would lose revenue by rolling out faster?

Dr Switkowski: No, I just said it is good; it is positive.

Senator CONROY: So you would gain revenue by rolling out faster?

Dr Switkowski: Yes.

Senator CONROY: Magnificent. And you are exceeding your forecast at the moment?

Dr Switkowski: To the extent that that is a relevant observation, yes.

Senator CONROY: To the extent that it is a fact, yes. Another effect of the slower rollout that you forecast miraculously in the revised outlook is that operating expenditure is increased. Page 38 of the strategic review states:

Cumulative Operating Expenditure to network completion increases by $5.4 billion in the Revised Outlook. This is as a consequence of the delay in premises being passed, the consequential increase in license and migration payments, and the addition of three more years of Operating Expenditure.

Dr Switkowski, what would be the effect of a faster rollout on NBN Co's operating expenditure assumed in the revised outlook for the years 2021 to 2024?

Dr Switkowski: What is the question? What will our expenses in the aggregate be?

Senator CONROY: No. What would your expenses be if there is a faster rollout in those three years? The answer is 'lower'. But I could offer you the option. Is it going to be higher? No. The answer is?

Dr Switkowski: The reason I hesitate is that by then operating expenses are tied to the revenue generation of the network.

Senator CONROY: Correct. So if you are getting more revenue your operating expenses are lower.

Dr Switkowski: No. I think the point that you are trying to get to, which is correct, is that by then the capital spending will be done and our operating expenses will be in line with whatever marketing successes we have at that time.

Senator CONROY: It's algebra, Dr Switkowski, and the algebra says that if your revenue increases here then your operating expenses in that 2021-24 are down.

Dr Switkowski: No, no; I am sorry. You misunderstand the way the accounting works.

Senator CONROY: We can agree to disagree and we will come back to argue this at considerable length on the 12th. Another effect of the slower rollout assumed in the strategic review is that NBN Co will need to borrow more from debt markets and pay more interest. We also established that in the December hearing. You had $7.5  billion in interest payment—that is page 38 of the December transcript. The overall effect, in combination with the deployment, revenue and opex factors that we have discussed, is that the strategic review assumes a peak funding blow-out of $13 billion based on one core assumption about the speed of your rollout. What would be the effect of a faster rollout on NBN Co's peak funding assumed in the Revised Outlook?

Dr Switkowski: Did you want to have a go at that, Robin?

Senator CONROY: I am not sure he did any work on the strategic review. It is your strategic review‑‑

Dr Switkowski: It is.

Senator CONROY: I would appreciate your answer. You are responsible for it.

Dr Switkowski: And I am.

Senator CONROY: He was put in a room and you had the wonder boy, Mr Rousselot, who is not here unfortunately; there is no explanation for why—

Dr Switkowski: The explanation, Senator, is somebody has to be doing some work back at NBN Co.

Senator CONROY: This is the Parliament of Australia. It is the Senate Estimates.

Dr Switkowski: This is the fifth time we have appeared in three months—

Senator CONROY: And it will not be the last.

Dr Switkowski: and we are traversing the same sort of ground.

Senator CONROY: If you continue to not present witnesses and the government members continue to waste time and limit time, unfortunately you will get to keep coming back. I do not particularly want to be here any more than you do, but the opportunities are continuing to be truncated by Senator Williams and the Liberal members of both committees, unfortunately. Dr Switkowski, just say to them, 'I can handle Conroy; let me deal with him.' Just tell them that!

Senator Fifield: Senator Conroy, the reason we are here—and I guess the reason we are traversing these areas—is that this government and NBN Co's new management are endeavouring to fix up your errors. I have been stunned, I have to say, by the focus you have had on forecast, given that there was not a single forecast that you met during your tenure as minister, and that you are focusing on the speed of rollout—

Senator CONROY: Does he have a question? Does the minister have a question?

Senator Fifield: given your disastrous—

Senator CONROY: Does the minister have a question?

Senator Fifield: rollout program.

Senator LUDLAM: I do not understand what this is going to achieve.

Senator CONROY: Neither do I.

Senator Fifield: I am just trying to explain to Senator Conroy why things might seem to be taking time.

Senator CONROY: I'm sorry that you do not understand anything we are talking about, but I cannot help you.

Senator Fifield: Clearly, you are learning as we go here, given your results when you were minister.

Senator CONROY: Dr Switkowski is doing fine. He does not need your help—honest! Ask him.

CHAIR: Senator Conroy, continue the question.

Senator CONROY: Thank you. I will ask him a question. So the key here is that you are going faster already—in just a few short months—than your strategic review forecast you would. That is unambiguously true.

Dr Switkowski: That is true.

Senator CONROY: As much as you try to dismiss it, it is unambiguously true.

Dr Switkowski: But it is not going faster than we were tracking up until the strategic review, or indeed the change of government. So the reference is the number that the strategic review put out there for the end of June—

Senator CONROY: which was an incredibly low-ball number.

Dr Switkowski: Relative to that number, we are tracking better at this stage.

Senator CONROY: Your forecasts all through for the fibre-to-the-premise rollout are just outrageously, outrageously low.

Dr Switkowski: I do not accept that.

Senator CONROY: You can accept it or not accept it; it is just a statement of fact.

Dr Switkowski: Senator Conroy, the revised strategy under the multi-technology mode anticipates that the rollout will be finished around about 2020, with the expenditure of $40 billion plus. I think that is a very, very demanding outlook. In support of that, I would remind you of the following: NBN, as I recall, was announced in April of 2009 and construction began a couple of months later.

Senator CONROY: In Tasmania.

Dr Switkowski: It is now five years—

Senator CONROY: It is the only place it started.

Dr Switkowski: The announcement, as I recall—and I stand to be corrected—

foreshadowed an eight-year rollout plan in 2009. Five years into that period, we are at three per cent.

Senator CONROY: No—there is where you are being dishonest again.

Dr Switkowski: Excuse me. No. No. Excuse me.

Senator CONROY: There is where you are being unqualifiedly dishonest.

CHAIR: Senator Conroy!

Senator CONROY: If you qualify it I will happily—

Dr Switkowski: I am qualifying it because I am going from memory. My point here is not to criticise you or the then government, but to point out how hard this is. And to suggest that, after a change of government and a change of personnel, we happen to be doing a bit better than one line in the sand from the strategic review, therefore the outlook is all of a sudden so much easier and brighter is, I think, misguided.

Senator CONROY: I am not suggesting for a moment it is easy at any stage. I lived it for the entire period, so I know how hard it was to get the machine cranked up and keep it cranked up, just like you are successfully doing. I know what goes into it. But where I disagree is with your overtly political statements, which you continue to make to pad out your case; statements like 'five years later'. The Tasmanian build commenced a few months after, in 2009. Then there were trial sites. The actual volume build was only projected to commence from about 2011. Just so you know in the future, any time you try to pretend that we have done three per cent in five years you are misleading Australians.

Dr Switkowski: Well maybe—

Senator CONROY: Just misleading them. I accept this on the basis that you have not followed it as closely as others. But you now have no excuse for misleading Australians.

Dr Switkowski: Indeed. Again, in the spirit of my further education, at which stage did you say that the rollout would take eight years?

Senator CONROY: When the first corporate plan came out, which was 2010-11 I think. I would have to go back; it is a long time since then. Then the Telstra negotiations—you would be familiar with them, not as in participating, but familiar with them—took 18 months. The plan accepted the reality that we had 18 months before we got access to the ducts. Then the forecast was made from 2012.

Dr Switkowski: Okay.

Senator CONROY: It would be from this point forward dishonest of anybody, yourself included, to suggest we built three per cent in five years. That would just be dishonest.

Dr Switkowski: But acknowledging the formidable challenges which characterise a project like that in its early stages, and which quite reasonably can be used to explain where the rollout is at the moment, I should also state that many of those challenges are still in front of us, including any renegotiation with Telstra.

Senator CONROY: The minister said it will be completed by June.

Dr Switkowski: That is why I am careful in cautioning you about taking a few months trend data and saying that as a result, this rollout is going to be faster, less expensive, much easier than what we are commentating about. It is not.

Senator CONROY: I am not disagreeing with you about the challenge. I have lived it longer than you, but you have inherited the challenge and so far, in terms of getting the contract and the rolling out, you are doing as good a job as anyone could in the short time that you have had.

Dr Switkowski: Is that on record somewhere, please?

Senator CONROY: Put that on the record. But what I will not let you do is continually misrepresent what actually happened, mainly due to your having just followed the political discourse, as opposed to the facts—

Senator Fifield: 'What actually happened'? Very little happened under you; that is the whole point, Senator  Conroy. That is the whole point.

Senator CONROY: A point in case.

Senator Fifield: No, Senator Conroy; it is not a political point. It is a statement of fact. Very little happened under your watch. Very few houses, very few premises in Australia were connected to the NBN under your watch. That is a fact. That is not a political point, regardless of who makes it.

Senator CONROY: Thank you. Dr Switkowski, an article in *The Examiner* on 17 August, 2013 quoted Mr  Turnbull as saying:

Mr Turnbull confirmed a previous pledge honouring all existing contracts signed by NBN Co to roll out fibre-to-the-premise in Tasmania.

Are you aware of this article?

Dr Switkowski: I am aware of the statement.

Senator CONROY: Are you aware of the same article, which stated that Tasmanian Senator David Bushby 'also dismissed Ms Collins by saying the Liberals had costed their policy on Labor's full Tasmanian rollout'?

Dr Switkowski: I am not aware of that.

Senator CONROY: A Tasmanian senator stated that. Do you agree that it was reasonable for Tasmanians to conclude, particularly from Senator Bushby but also from Minister Turnbull's statement, that the coalition was promising to complete the fibre-to-the-premise rollout of Tasmania, as committed to by Labor and NBN's contract?

Dr Switkowski: My inference was that the coalition was committed to honouring contracts.

Senator CONROY: No. I am not asking for your opinion yet. We will get to that. I am asking about what Senator Bushby said.

Dr Switkowski: I am not aware of the article. I would hate to have to interpret the intent.

Senator CONROY: 'The Liberals had costed their policy on Labor's full Tasmanian rollout' included in their costings—that is fairly clear, but I will let you slide by, by not embarrassing Senator Bushby. Are you aware of any effort made by Mr Turnbull or Senator Bushby to explain that what they really meant was that they would change how their rollout would be constructed, and claim that it was honouring the contract?

Dr Switkowski: Firstly, I am not familiar with Senator Bushby or those comments so I am not sure how to respond to the question.

Senator CONROY: A couple of days ago, on 13 February, you said on Radio ABC in Tasmania, 'There is a contract with Visionstream to connect 225,000 Tasmanian homes to high-speed broadband. It doesn't specify the technology, but obviously, in the previous model the infrastructure was going to be an all-fibre infrastructure. We've now agreed on a multi-technology mode, where we will seek to use existing copper network where we can.' That was you?

Dr Switkowski: That was me.

Senator CONROY: I have not misquoted you at any stage?

Dr Switkowski: That sounds right.

Senator CONROY: Am I right in saying, Dr Switkowski, that you were very explicit in saying that your MTM—that is how you refer to it—would be used in Tasmania, just as it is proposed to be used on the mainland?

Dr Switkowski: My message was that we would run all-fibre in Tasmania until such time as the alternative rollout strategy could be analysed and applied to Tasmania, which I expected to be at the end of this calendar year.

Senator CONROY: Sorry, could you say that again?

Dr Switkowski: I do not think so.

Senator CONROY: Could you paraphrase it for me?

Dr Switkowski: My message was: the fibre rollout would continue in Tasmania—and elsewhere, frankly—for the remainder of this calendar year. It will take us that long to determine how to execute the multi‑technology model. At that point we will have business rules in place to determine how the rollout will progress, as explained elsewhere.

Senator CONROY: I did not bother to quote the other part, but I think you also said that you would be going to roll out fibre to the end of the year and then after that it was whatever?

Dr Switkowski: Yes—that is the consistent message.

Senator CONROY: Following your comments, *The Examiner* on 17 February in its editorial wrote:

In other words, after this year some residences, some businesses, some schools and even some regions would enjoy super fast connection but others wouldn't or would have to wait. That is not what Mr Turnbull said in last year's federal election campaign.

That is their editorial—I am not adding anything to it. Given that your comments have been interpreted by Tasmanians as not being the same as what Mr Turnbull promised last year, have you had any conversations with Mr Turnbull about the inconsistencies between his comments and your statements on radio?

Dr Switkowski: I continue to have conversations with the minister, mainly in the context of Tasmania and what the Tasmanian rollout outlook is.

Senator CONROY: On 18 February the ABC recorded Tasmanian opposition leader Will Hodgman as saying that the NBN could cost him the election. On 20 February *The Examiner* and the *Australian* followed reports on television that Mr Hodgman had travelled to Sydney to see Bruce Springsteen and also to petition Mr Turnbull to claim to an all-fibre rollout. Finally, Mr Turnbull said on radio on Friday that NBN Co is looking very seriously at aerial fibre trials in Tasmania but these trials would not be completed before the state election. So did Mr Turnbull or his office or his department have any conversations with NBN Co about the rollout in Tasmania before or after Mr Hodgman's visit?

Dr Switkowski: I cannot reference Mr Hodgman's visit because I was not part of that, but in the lead-up to my visit to Tasmania, and certainly thereafter, there has been continuing dialogue between the minister, his office and NBN about how we might expand the range of options for Tasmania.

Senator CONROY: Mr Turnbull said on Friday—I am sure someone has drawn it to your attention—that these aerial rollout trials will start very soon.

Dr Switkowski: There are discussions to do that.

Senator CONROY: No. He said they would start very soon—not that you had discussions to start them. He said they would start very soon. So how soon before you commence an aerial fibre trial in Tasmania?

Mr Switkowski: Here is where we are. We have our chief operating officer, Greg Adcock, in communication with Visionstream and Aurora in Tasmania. You are aware that Aurora put a proposal to NBN in October 2013 to encourage an all-aerial build. We have maintained that conversation, but we are at the point now where we would like to find two or three communities where we can run a controlled trial of a Visionstream-Aurora aerial build-out of an all-fibre network and compare it with what fibre to the node might cost as well as the current fibre-to-the-premises cost base. That may take us some time to do. I do not have a start date, but I imagine it will start in the weeks ahead, and we will have some information that will guide our decision some time thereafter.

Senator CONROY: Mr Turnbull said very soon. This is very germane to the Tasmanian public. Is Mr Turnbull misleading them? Can you give us any rough indication of when you will start? Certainly not before the election, which is a couple of weeks away.

Senator Fifield: Is that the Leon Compton interview that you are citing?

Senator CONROY: I think it is. There is a transcript on Mr Turnbull's own website. That is where we are drawing it from.

Senator Fifield: To assist the committee I will read the full quote. It says

Well, the NBN is working through the feasibility of that and we're - if we agree to go down that route, and we're looking at it very seriously, but we're not going to be - I know there's an election on, but we've got to - NBN Co is a business and it's got to look at these things carefully and in a considered way, but they would start very soon, yeah, sure.

Senator CONROY: 'Soon, yeah'. That is what he says.

Senator Fifield: That is right. It is premised on working through these issues carefully.

Senator CONROY: I am asking Dr Switkowski to give us an indication of what 'soon' is. He is gun shy, what can I say? That is the only time I have ever seen Dr Switkowski gun shy. We have Mr Brown, who is in charge of all this area, with us. Perhaps he can. He is busily scribbling you notes. Mr Brown, don't be gun shy. Come on down.

CHAIR: Senator Conroy, order.

Senator Fifield: I am simply making the point from Minister Turnbull's own words that NBN is working through the feasibility.

Senator CONROY: And I am asking Dr Switkowski for a definition of 'soon'.

Mr Switkowski: Can I ask Mr Brown if he can add to this?

Senator CONROY: We would love to hear from Mr Brown. You know the informal rule we have always had: if you don't get your name on *Hansard*, you don't get paid! You should enforce that as well, Dr Switkowski; it stops them hiding.

Mr Brown: I am looking forward to being paid! We are in discussions with Visionstream and Aurora. We need to find the right design. We need to pick the right place and then get the design done to enable us to string the cables up. I would expect that to be finalised within the next month. Whether it commences in the next month is a question of which place and Aurora's resource availability, but Aurora certainly are committed to doing this. We want to do it and we want to see the real cost of actually building and running it. Until we do that, we are not in a position to know those numbers.

Senator CONROY: How many premises were you planning on doing? Dr Switkowski said a control of a couple hundred, was it?

Mr Brown: We expect it to be smaller than an FSAM; but, if you think of an FSAM of about 2,800, it is probably likely to be between 2,000 and 2,800. But, until Aurora and Visionstream agree, we have not nailed that up yet. It needs to be big enough that we can actually have a good, clear view of the participants.

Senator CONROY: I am not disagreeing. I have some experience with overhead rollouts in Tasmania, as do you.

Mr Brown: Indeed.

Senator CONROY: Okay, so about a month. You can understand people would be sceptical; it was promised to them before an election once before that they were going to get a fibre rollout, so I want to make sure we have something we can hold you to. The Tasmanian public were told by Senator Bushby it was going to be a full-fibre rollout before the last election.

Moving on. I understand the Visionstream contract renegotiation has been settled. Is that correct?

Mr Switkowski: Not quite. We have agreed with Visionstream on terms under which their work would continue and we have agreed that there are areas of dispute that will be subject to a more formal process of resolution. So good progress restored good working relationships, and we are seeing evidence of that in the field.

Senator CONROY: I think you or Mr Turnbull said the original contract was 225,000 homes with fibre to the premises. It was known as work package 4. Does that sound familiar, Mr Brown? I do not expect Dr Switkowski to be able to reel off old work packages.

Mr Brown: Yes, it was.

Senator CONROY: And that was a physical design, the fibre build and the ongoing maintenance of the network. Is that correct?

Mr Brown: That is correct.

Senator CONROY: What was the term of the work package for?

Mr Brown: For four years, commending March 2012.

Senator CONROY: Two plus one plus one?

Mr Brown: Yes.

Senator CONROY: What is the term of the new contract?

Mr Brown: What we have effectively done is amended the previous contract to cover 16 FSAMs, which is about 36,000 premises. That amended agreement specifies dates for delivery.

Senator CONROY: When do they have to be completed by?

Mr Brown: That is a subset of the original contract. We have nominated specific FSAM locations for start and finish dates as part of that agreement.

Senator CONROY: Okay. So they have a contract to complete 36,000 by the end of the year?

Mr Brown: There is a sunset date as to when they are going to be finished. That is December—effectively 12 months from when we made this amendment to our existing contract.

Senator CONROY: So this was an amendment back in December.

Mr Brown: Yes. Last December we signed the amending agreement to take a subset of the work that was part of the original contract and commit to dates and deliveries. The onus is on them to complete that. At this point in time there are two of the 16 FSAMs close to final completion. Nine have commenced work and five are yet to start. We would expect at this stage—

Senator CONROY: Sorry, can I clarify? There is a completed set of FSAMs right now?

Mr Brown: Yes.

Senator CONROY: There are some that were underway prior to 16 December, and there was construction work underway—depending on if we can avoid the argument about what construction is, because I think Dr Switkowski accepted what construction was at the last Senate hearings—in more than 16 FSAMs.

Mr Brown: That is correct.

Senator CONROY: In how many FSAMs was work underway?

Mr Brown: I would have to take that on notice. It was more than FSAMs.

Senator CONROY: Because 90-odd thousand homes were covered. I can get a copy of the map that was up on the website and that has been removed, but my rough understanding was it was 90,000.

Mr Brown: That would be approximately correct for the design phase. When I talk about 16 FSAMs, this is the construction phase.

Senator CONROY: You may not have caught up with the news flash that Dr Switkowski accepted that the design and construction phase included what you are now trying to define as just the design phase. I said I was trying to avoid that particular argument because Dr Switkowski has stated on the public record he accepts that having people walking down the streets in uniforms with traffic management and hats on is construction work. He has accepted that, so you do not need to keep that pretence anymore. It may not have made its way to Minister Turnbull yet, but Dr Switkowski has accepted the real world.

Mr Brown: In clarifying: I referred to 16 FSAMs that are in the actual construction phase as against the design phase, and some of those are completely new start work.

Senator CONROY: Okay. I accept that. That is what I am trying to clarify. What is new work that you have picked out and told them to go to on top of the 90,000 that were under construction and design—I am trying to avoid getting into an argument. So this 36,000 is a complete subset of that 90,000 or has some from outside that 90,000?

Mr Brown: I will take it on notice to confirm, but I understand it is a subset of the 90,000 that were captured in the design phase; but, again, many of those had had no work actually commenced in the street.

Senator CONROY: Depending on your definition of 'design' and 'construction'—but, as we have said, Dr Switkowski has accepted. But also Visionstream obviously had some difficulties, so it is possible that they, as you suggest, had done no work at all, not even the trundling down the street. Will Visionstream be paid in full for their original contract? Will they receive the same amount of money?

Mr Brown: Will they be paid in full when they finish the work?

Senator CONROY: Will they receive the same amount of money as they were forecast and announced on the stock exchange that they were going to receive for the 36,000 premises?

Mr Brown: The amending agreement included new commercial terms, which are commercially sensitive and in confidence and we are not going to—

Senator CONROY: I am just asking whether they are going to be paid the amount of money announced on the stock exchange and that you—not you, but the NBN has previously acknowledged. The question I am asking is: are they going to be paid the same amount of money for 225,000 premises or are they going to get paid for whatever they have already done, plus the 36,000? This is a very germane question that you will ultimately have to answer. It is not about the sensitivity about per FSAM; this is about a quantum, and quantums you have to tell us. So what is the quantum of the new contract?

Mr Brown: As I have attempted to point out, the 36,000 premises that are covered by the 16 FSAMs under the amending agreement is a subset of the original contract. They will be paid consistent with the terms of the original contract and any amendments we make as part of that—

Senator CONROY: Are you getting any money back from the—was the original contract $350 million?

Mr Brown: I would need to take that on notice. That is approximately correct.

Senator CONROY: Approximately? I have to get it—

CHAIR: Senator Conroy, Senator Ruston cannot be here after lunch.

Senator CONROY: That is cool. I am happy to pause.

CHAIR: I have actually got you some more time.

Senator CONROY: Thank you. I am happy to pause. If I could just finish this question, I am happy to pass to you to facilitate.

CHAIR: Yes.

Senator CONROY: With respect to the $350 million that Visionstream had originally allocated in the original contract, have you got any of that money back?

Mr Brown: No.

Senator CONROY: Are they going to receive $350 million for completing the remaining 36,000 premises or have you added in for next year's work that they will be doing—the fibre-to-the-node rollouts?

Mr Brown: The contracts are not structured that way. The contracts are structured such that there is a nominal value attached to them that is the design finish as we get a price on building each FSAM. At the end of that we will know whether we achieved the number that was nominally set up at the start. And there are a number of variation clauses in the contracts as well.

Senator CONROY: So they were contracted to received $350 million for 225,000 completed homes and they are going to deliver in total 36,000, plus what have we got completed already today?

Mr Brown: About 34,000, but they did not build all of those.

Senator CONROY: So there will be 66,000 homes completed against a target of 225,000 and they will still get the $350 million?

Mr Brown: No. That is not what I said.

Senator CONROY: How much money are you getting back?

Mr Brown: I said we would be paying them consistent with the contract and the contracts are set up where if they do certain work—quote us for the build of an FSAM—we pay for that. We will pay them for the work they do under the contract. We are not paying the contract.

CHAIR: Senator Conroy, I will now—

Senator CONROY: So how much of the $350 million will you get back? You know. I am asking for that information.

CHAIR: Senator Conroy. You can come back after lunch. Senator Ruston, you have the call.

Senator RUSTON: With respect to the NBN satellites that you referred to that are coming into operation, do we have a reasonably definitive time of when they are likely to be operational?

Mr Switkowski: We do, although I might invite John Simon to contribute to this conversation.

Mr Simon: The long-term satellites are planned to be in operation in 2015 with the launch and then an operation migration period, which takes us into September.

Senator RUSTON: I think Senator Smith discussed it earlier with the department, but probably without question the biggest issue that I face as a senator who lives in rural and regional Australia has been this issue of access to any real service at all. What I am trying to work out is when I can go back and tell the people that knock on my office door every single day or who ring me or email me, if they can, when they are likely to be able to see an improved service over what they have got now? These are people who are not necessarily going to ever be able to go on to a fibre or a network. They are people who are going to always have to rely on satellite.

Mr Simon: Just to clarify the question, is your question as to when we will see an improvement on the interim satellite?

Senator RUSTON: No, I will come back to that. What I would like to know is when can I say to them, 'Look, guys, I know it has been a horrible road, but by such and such a date you should be able to get access to reasonable speeds in relation to'—

Mr Simon: So long-term satellite availability commencing September 2015.

Senator RUSTON: I was just being really careful. So if I say to these people that, from September 2015 it is reasonable for them to expect to be able to access this—

Mr Simon: Just to be clear, though, we also then have to migrate the users who currently sit on the interim satellite, the 45,000 or so, and also take on new customers as well. So there is a migration period and in parallel a period where we add new customers in addition to the 45,000.

Senator RUSTON: So what sort of migration period are we looking at?

Mr Simon: The migration period at this point is about 12 months.

Senator RUSTON: So, to be safe, we are still probably saying that they are likely to, at worst, be the end of 2016.

Mr Simon: No, if they are not on interim satellite we will also be able to take additional customers during that migration period.

Senator RUSTON: Is there any prioritisation being given to them if they choose to migrate to the permanent satellite? Would they get any preference over new customers?

Mr Simon: For economic reasons we have to migrate them off the interim satellite because of the cost: We have better economics on our long-term satellite than we do on our interim satellite. It is important that we take the availability of that. That is why we have the migration and existing as an important criterion.

Senator RUSTON: Okay. I have one of these services myself, but I have been lucky enough that I can now get ADSL because it has been extended, but over for the last couple of years people have been anecdotally telling me that the deterioration in the service has been quite marked. We are looking at potentially another 18 months or so. What can the users of the interim satellite expect to happen over that next period? Is it going to get worse or just stay as bad as it is now?

Mr Simon: It cannot get any worse, because there is a cap on the number of users that can be connected. Apart from a couple of beams where there is a bit of capacity left, in essence we have reached the capacity on all of the major beams that are the popular beams—the eastern seaboard and the Western Australian side.

Senator RUSTON: So there is no further capacity for the providers to sell larger packages than currently exist—

Mr Simon: We have actually had cease-sales—we have stopped the process of adding new customers. In addition we are looking to see whether there is any optimisation that we can do on the interim satellite. We are working through that at the moment; we have not closed a solution on that. So we are seeing what we can do to improve the service, recognising the cost of the service—we are sensitive to incurring more costs than the current $7,000-odd per user that is already there. But we recognise the need to try and lift service performance and we are working through that process. We hope to close off on whether we can have a solution to that over the next few weeks.

CHAIR: Mr Simon, just adding to Senator Ruston's question, going back to the two satellites launched next year and hopefully operating in September 2015: do you have any idea how much the wholesale price for NBN will be for a no-satellite service? I think it is out to cover about 400,000 people in the outskirts and remote areas. Is that correct?

Mr Simon: That is right. In terms of wholesale pricing, we do have a strategic review going on as we speak, on both satellite and fixed wireless. Part of the scope of that strategic review is to look at a range of topics, including the way we price it.

Senator CONROY: You are not considering putting the price up?

Mr Simon: We are looking at how we manage the tools to manage the capacity effectively.

Senator CONROY: Are you considering increasing the price of the NBN?

Mr Simon: We have not closed on any items at this point.

Senator CONROY: So you are not ruling out an increase.

CHAIR: Senator Conroy, I have the call.

Mr Simon: That is not what I said; you are putting words in my mouth.

CHAIR: Exactly.

Senator CONROY: You have just said it is on the table. I am asking you to rule it out.

Mr Simon: I am saying we have a strategic review to look at the best ways of optimising capacity and making sure we can meet the demands.

Senator CONROY: As part of the review are you considering increasing the price of NBN Co?

CHAIR: Disregard the question, Mr Simon—Senator Conroy does not have the call. I will go back to Senator Ruston.

Senator RUSTON: Going back to the people in rural and remote areas who have not been able to get access to the interim satellite, when did the 48,000 cap get reached?

Mr Simon: We are not technically right at it—there are a couple of beams that still have some capacity. But, effectively, we got there, more or less, by the end of December last year.

Senator RUSTON: So if I rang up tomorrow, and I was in a remote community and I wanted to be able to get access to this satellite, would I or would I not be able to get access?

Mr Simon: Not. There are some people who are leaving the service, because they may be moving home et cetera, and if a slot becomes available other people can take that slot. We are also looking, as we build our fixed wireless service, at potential overlap there—we may be able to migrate 1,000 or so users off the satellite onto fixed wireless, which would free up some additional capacity. But those are the numbers we are talking about.

Senator RUSTON: Sure. Because the original number of people who I understand were told they were eligible for this service was—165,000 or 265,000?

Mr Simon: I think you are referring to the eligibility and coverage discussion.

Senator RUSTON: Yes.

Mr Simon: I think we need to take a step back. NBN does not sell directly to end users; we do that for RSPs.

Senator RUSTON: I understand that, yes.

Mr Simon: All our RSPs are aware of the 48,000 capacity cap—we clearly communicated that. I am not aware of any specific communications. The market talked about 165,000 or 265,000, but clearly one could read the corporate plan and potentially interpret coverage to imply that we would connect all those users. In hindsight, a bit more clarity around that in the corporate plan may have helped.

Senator RUSTON: If you bought a certain amount of bandwidth from the satellites, it obviously had a certain capacity. That capacity then had to translate into the number of people who may potentially seek to have that service. It just needs to be then divided out into a number that says—

Senator CONROY: And it was stated on day one that it was a 48,000 cap.

Senator RUSTON: Okay, Senator Conroy.

Senator CONROY: It never changed—the officer just told you.

Senator RUSTON: Senator Conroy, that isn't even my line of questioning—if you would perhaps let me finish you may see where I am going here. So, with that 48,000 that Senator Conroy has kindly said was always its capacity limit, you had this bandwidth capacity of 48,000 and 165,000 people thinking they could get it—I don't know what you were going to do with the other 120,000. There must have been a capacity per user.

Mr Simon: Correct. The service was dimensioned for 30 kilobits per second per user.

Mr Switkowski: Can I just intervene. You have to pause on that 30 kilobits per second and understand that there are a lot of people, remote from urban areas, where you hear the stories about children not being able to do their homework, 45,000 of whom now get 30 kilobits per second—that is 1,000 slower than what we are trying to deliver and can deliver in some areas. So the service, appreciated though it is in rural and regional Australia, is at subsistence level in a broadband world.

Senator RUSTON: Excuse my technical ignorance here but how does 30 kilobits per second equate to the promise of 6 megabits per second?

Mr Simon: The 6 megabits is a peak information rate—so, potentially, the service bursts to that level but it is not sustained at that level. So networks will burst out and it all boils back down to congestion, how many users use it per hour. When you equate the 30 kilobits to a download usage comes to about 9 gigabytes per month of data usage.

Senator RUSTON: What I am trying to work out here is: we bought this much capacity and we paid out over $351 million for that bandwidth. We then—

Mr Simon: Actually, in fairness, the $351 million is more than just bandwidth—you are also paying for the satellite, the dishes that are installed on the home, the rollout et cetera; so it is not just capacity.

Senator RUSTON: Sure. So we have bought what we have bought and we have paid $351 million for it. Because NBN Co is not the service provider, we then went to a series of a service providers and said: 'We have got this bandwidth and we are seeking for you to provide to people, who are unable to get other services, a capacity to be able to generate within this bandwidth.' Did you restrict, or was there any restriction, of how much they could sell in that? If we have the situation where we have these disgustingly almost non-existent services in rural and remote Australia at the moment, have the ISPs oversold that bandwidth in what they have sold to the customers that they are actually buying from?

Mr Simon: I understand the question. The interim satellite service does not have any monitoring tools or enforcement tools that stop a specific end-user from going beyond a particular download allowance. We do have a fair use policy, which is a policy that we ask the RSPs to stay within, which delivers a 9.7 gigabytes per month download. That is a fair policy usage. The monitoring of that is after the fact and that is a reality. In hindsight, one could argue that some tools should have been potentially put in place to jump ahead of the curve. To your second question of whether some RSPs have oversold, there are some plans in the market that one would question as to whether they are consistent with the fair use policy and would potentially allow an end-user to use more than 9.7 gigabytes. Recognising the fair use policy though is an on-average policy so it talks across the RSPs' base. Some RSPs are being far more appreciative of the issues of satellite, which it is finite capacity, and have worked their base in a more stringent and confined way than other RSPs, and some have been a bit more generous.

Senator RUSTON: Are there any people out there at the moment that are on the satellite that could and should reasonably be using alternative forms of service?

Mr Simon: Each of the users that have gone through the eligibility criteria have tested for whether they have an alternative service that they could use such as a fixed line service and maybe even a decent mobile service. Based on the eligibility criteria you should have a set of end-users that this is the best and sole service that they can get.

Senator RUSTON: Your expectation when this service was put out into the marketplace was that the service providers would seek to determine the eligibility before they were able to provide this service?

Mr Simon: No, we run the eligibility criteria that is run through the department and a service, which we call BSL, which ensures that those users meet the criteria before they are connected.

Senator RUSTON: You then advise the service provider that these people are—

Mr Simon: Correct. There is a method and process to stop, say, someone in the city being connected to it.

Senator RUSTON: There has been some speculation, which is obviously false and unjustified from your comment, that there are people that are in peri urban areas availing themselves of this service. It was put out into the marketplace at a competitive price, because we must not disadvantage those in country areas. Because it was in such a competitive price there were those, who possibly may have been able to access other services, who said: 'Well, this is a pretty good and easy deal and it is very competitive and we will pick it up.' What you are saying is there is a mechanism in place that would prevent people from taking advantage of the subsidisation of those in areas that needed subsidisation.

Senator CONROY: You have a registration process.

Mr Simon: The eligibility criteria should take care of that, but I will also argue that, compared to competitive offers in the marketplace on ADSL and other services, the interim satellite service, while the pricing is certainly fair in general pricing for our interim satellite service, does not compete with the unlimited allowances that you get on an ADSL service and the pricing you get there.

Senator RUSTON: Because of the capacity?

Mr Simon: Because of the capacity and what you would get in the usage allowance. They are not comparable.

Mr Switkowski: Part of the current review of the satellite and fixed wireless strategy is to see whether, in the broader scheme of this multi-technology model, we can stretch out the fixed footprint with cable and copper and also implement fixed wireless. So we are seeking to make people less dependent upon satellite and make the satellite available to those that are in truly remote areas, and then provide a substantial lift up in performance for those communities, premises et cetera that might be in that fixed wireless area and on the edges of an extended copper and fibre footprint. That will play out over the next month or so.

Senator RUSTON: You do not have to answer this question if you do not want to. Prior to this satellite service being put into the marketplace, there was obviously the old service that—

Senator CONROY: ABG.

Senator RUSTON: Yes, which was not great—we all accept that. In a sense, we have now spent $351 million on satellite and we have delivered a service which is today really no better than we had. Was the $351 million well spent or was the $351 million perhaps not managed as well as it should have been?

Mr Switkowski: I think we have partly addressed this in the past. There is no debate about the importance of serving the needs of all Australians, no matter where they live, work or, indeed, play. So, in Australia you are always going to have to go to solutions that include some form of satellite delivery to give coverage over these remote areas. An investment in satellites was a necessary part of the plan and will continue on into the future. The program until recently could be criticised for not having been thought through in terms of some of the details, and we are in this difficult period where we can add no further customers, although the demand exists out there. Whether technically you could have made a better decision is open for discussion. I do not think that is clear one way or the other.

CHAIR: The committee will break for lunch.

**Proceedings suspended from 13:01 to 14:00**

CHAIR: Welcome back, gentlemen. We will continue. Senator Conroy.

Senator CONROY: Mr Brown, we were talking about Visionstream's renegotiated contract. I was trying to understand how much in total the contract is now worth to Visionstream, as at 30 December.

Mr Brown: To correct our discussion, the four-year contracts are worth $300 million approximately.

Senator CONROY: Thank you.

Mr Brown: For clarity, the way the contracts actually work is we pay when work is finished. If we do not actually commission the work with them, then we do not have to pay for it. So it is not paid upfront.

Senator CONROY: Absolutely. A wise practice. So, if all 16 FSAMs and 36,000 homes are completed, what is the projected total cost?

Mr Brown: We have not revalued the contract. We have changed the commercial terms for the 16 FSAMs I referred to before.

Senator CONROY: I am assuming that is code for you have increased the amount of money you are giving Visionstream but you are not allowed to not tell us what the quantum is.

Mr Brown: Well, the commercial terms are quite sensitive issues for us. What we have agreed with them is that at the end of the 16—

Senator CONROY: They have to declare it to the stock market, Mr Brown. It is not a commercially sensitive number. They put out a press release when they got the first one saying, 'We've got a contract worth this.' They will do so again when you let them. More importantly, it is a total contract cost I am asking for and you cannot withhold the information.

Mr Brown: I am not withholding the information. Visionstream valued the contract at $300 million when we made the original announcement. They released that to the Stock Exchange. They have not chosen to restate anything to the Stock Exchange, so clearly, in their view, it is not material in terms of any—

Senator CONROY: So they are still receiving the $300 million. 'Not material' is an important commercial term. To complete the 30,000, you said, that—

Mr Brown: Thirty-six thousand premises.

Senator CONROY: Thirty-six thousand. Does that include the ones that were done by Aurora the first time? I am just trying to not double-count on you.

Mr Brown: Sure.

Senator CONROY: So is that 36,000 of the 225,000 that were contracted to do? That is just so I am not unfair in the characterisation I will ultimately get to.

Mr Brown: The 36,000 is a subset of work package for contract we provide.

Senator CONROY: Okay. How many have Visionstream already completed—in other words, not the work that was done by Aurora in those first three sites in Tassie?

Mr Brown: Bear with me as I calculate that number for you. Within scope, the contract is approximately 20—

Senator CONROY: They have done 20?

Mr Brown: We have passed 33,000 premises in Tasmania, of which approximately 27,000 are part of the contract with VPL.

Senator CONROY: Okay—27,000?

Mr Brown: Approximately. We can reconfirm those numbers.

Senator CONROY: I will not hold you to that. That is a rough approximation. If you are able to identify it more clearly, that would be great. So 27,000 have been passed. Was it 225,000? Mr Turnbull keeps changing the number on me. Mr Turnbull moved it down to 195,000, I think, yesterday in parliament. What was the original number of premises on that Visionstream contract?

Mr Brown: In the original contract it was approximately 190,000 premises.

Senator CONROY: One hundred and ninety thousand.

Mr Brown: There is a mechanism in the contract to adjust that, which is always one of the issues.

Senator CONROY: So it could have been 225,000 at the beginning?

Mr Brown: There are mechanisms to adjust the actual premises that you finally pass. But when we did the original contract and struck it, in March 2012, it was 190,000 premises that were in scope for that contract.

Senator CONROY: Thank you for that. So there are 27,000 that they have passed of the original 195,000. You have now contracted them to complete by December, and there are no plans to go past December with fibre to the home. They are not contracted to do the future fibre to the node, given there is no HFC in Tasmania, unless you are planning on building some. No plans?

Mr Brown: I think we have been quite clear on that. When we are clear about where we are going to deploy which of the multiple technologies—

Senator CONROY: But my point is there is no other technology in Tasmania. I am not trying to be cute. I am just trying to be succinct. You have not employed Visionstream to do your fibre-to-the-node deployment or any other technology you decide in Tasmania?

Mr Brown: Not at this point in time because we have not made those decisions, of course. The contract has capacity to accommodate those changes in the future, but for the moment—

Senator CONROY: But that would be at an extra cost? That would be on top of the $300 million, roughly?

Mr Brown: No.

Senator CONROY: This is the point I am trying to understand. You are going to have to come clean on it, so just help me here. Do they have a commitment from you to be part of the build?

Mr Brown: Do they have what, sorry?

Senator CONROY: Do they have a commitment—a verbal or whatever arrangement—that they are the preferred contractor, subject to reasonable price, or have you set a price, for the post-2014 build?

Mr Brown: They have entered into a contract with us on a schedule agreement with certain price escalations built into that contract for four years. We have taken some of that work and agreed to an amending agreement as to exactly how that will work between now and December of this year. We expect that work to be finished somewhere between September and December, at which stage we will be very clear about what FSAMs get built next. We have a mechanism in the contract that enables us to change either where we go or what we build—and, in fact, to exit the contract. All our contracts have that capacity, to create flexibility for future government policy.

Senator CONROY: Maybe I am just not being clear enough. I was hoping I was, but I am obviously not because you are not understanding my question yet. Visionstream, you have just advised us, have not notified the Stock Exchange of any change to their projected $300 million, which leaves me scratching my head because they are doing 27,000 plus 36,000, which is 63,000, of the original 195,000, yet they are not advising the stock Exchange that they are getting any less money. I am hoping that you can clear this up for me. I am assuming that they are now only going to be paid—albeit at perhaps an increased rate; I think you are indicating that; you have not confirmed that. I am trying to understand what you are paying for the 63,000 homes to be completed. You have no choice but to answer that.

Dr Switkowski: It is $100 million, plus or minus.

Senator CONROY: One hundred million.

Dr Switkowski: And why do I say that? Sixty-three thousand is one-third of 195,000 to within rounding errors. The contract was $300 million. It is going to be about one-third of the contract value, plus or minus one of the variations.

Senator CONROY: Thank you. It would have been much quicker, Mr Brown, to toss to Dr Switkowski.

Dr Switkowski: The Stock Exchange and investors will have made that calculation.

Senator CONROY: I am following it very closely and it has been unclear to me.

Dr Switkowski: But no advice is required until such time as the contract is materially altered. That has not happened.

Senator CONROY: Well, you have materially told them you are not supplying them any more work after 2014.

Dr Switkowski: No. As Kevin has described, we are releasing work. We are trying to do that in a way that is efficient for our construction partners. What will happen post the end of this year is—

Senator CONROY: You can understand that I am not going to be critical if you say it is because you are going to have a gap between the ramp-up and the ramp-up according to the strategic review. Its peak build is around 2018; that is what it says. The ramp-up is going to be not on 1 January 2015. So I am not really critical if you say, 'No, look, we actually have to release another 50,000 homes'—

Dr Switkowski: And that will not be the case.

Senator CONROY: 'on 1 January. '

Dr Switkowski: Or earlier.

Senator CONROY: But I am sure the Tasmanian community, as well as those contractors, including the ones that have publicly raised this issue, would like to know that they have got that certainty.

Dr Switkowski: Absolutely. That is a key priority of ours. That is what Greg Adcock is focussing his attention on, and that is how we can deliver, to our construction partners, work in a way that maximises their and our productivity and gives them a reasonable chance to make an economic return. We certainly have not flagged to Visionstream that the numbers that they have been given thus far are the end of the story, because it is not.

Senator CONROY: The end of the story on fibre to the home or the end of the story on deploying the MTN, or whatever it is called?

Dr Switkowski: Both. I think, Senator, we have made this comment consistently: the strategic review painted a picture at the nominal end of the build which saw 100 per cent of the premises passed—12 million or so—and about a quarter would be an all-fibre connection under scenario 6.

Senator CONROY: That is basically just greenfields built. It is about five or six per cent. I am happy for you to jump in and correct me. I think five or six per cent is just the continuation of 2014 and maybe a little into 2015. The growth to 22 per cent is essentially greenfields. That is why you do not actually start issuing any more contract instructions.

Dr Switkowski: I think, for greenfields—and here I am guessing—on an annual basis, new developments are 100,000 homes over 10 years. That is a million. That is still two million short of the three million that I think we are going to connect. I am getting into areas I do not really—

Senator CONROY: I am awaiting some information which I am sure will help both of us stumble our way through this.

Dr Switkowski: But, from our planning point of view, we see ourselves not tailing off or tapering off in terms of our fibre-to-the-home build. It may well be redirected in terms of geographies and areas. But the volume of fibre to the home is at least steady and may well gently increase. These other technologies will be laid over that some time early next year.

Senator CONROY: Gently increased from the end of this year or gently increased from 30 June, when you are gently increasing to 6,000?

Dr Switkowski: My comment is at the end of this calendar year.

Senator CONROY: If you are hitting 6,000 by 30 June, what will you hit by the end of the year?

Dr Switkowski: Something higher.

Senator CONROY: I would have been hoping, after six months in the job as a CEO, you could be a little more precise. I am happy for someone else at the table to answer. After six months as CEO, you are able to be fairly definitive four months in advance—from 5,000 to 6,000. We are in February, and 30 June is four months away. I have asked you to extrapolate another six months. Would you like me to come back to that? Where do you think you will be on 30 July?

Dr Switkowski: Well, as we have said, a rate of 6,000 premises a week.

Senator CONROY: Now I am asking you what it is you could get up to by the end of the year on your projections—not on my projections but on your projections.

Dr Switkowski: And that will be part of the 2014-15 business plan, which we are working on at the moment.

Senator CONROY: So for 2014-15 you are saying—

Dr Switkowski: Business and budget. Business plan and budget.

Senator CONROY: So 6,000 premises per week is what I am talking about, and for 2014-15 it is 14,000 to 15,000? That is what I am saying; I am trying to work this out. That is a big jump, which I do not think is what you are saying, so help me out here. By the end of the year, what do you anticipate? You are the CEO. You have these figures in front of you. You must have an extrapolation figure, given you had one for four months in advance. I am now asking you to—

Dr Switkowski: No. In fact, we do not have a year-end run rate figure because that is being worked on for inclusion to help form the 2014-15 budget.

Senator CONROY: The last time we met, in December, we were discussing cost claims from NBN Co contractors. I believe Mr Adcock noted that claims have not yet been received from Silcar or Visionstream, but Mr Rousselot noted that the authors of the strategic review made a judgement about what these claims were likely to be. I note also that Mr Payne said at your half-yearly results that NBN Co had accrued four outstanding cost claims and disputes. What have you accrued?

Mr Payne: The cost of those claims—

Senator CONROY: Yes. What is the figure?

Dr Switkowski: It is a commercially, very sensitive number and we will not disclose it.

Senator CONROY: Have any claims been submitted yet?

Dr Switkowski: That, too, is a commercially sensitive number.

Senator CONROY: I said 'have any', not how much. Have any been submitted?

Mr Payne: The claims for variations are submitted routinely.

Senator CONROY: Sorry?

Mr Payne: Claims for variations get submitted routinely. So, yes, we have received some of them.

Senator CONROY: What were your words, Dr Switkowski, at our first encounter? 'Escalating by the day'? 'Skyrocketing by the day'? I am trying to remember what your exact colourful phrase was.

Dr Switkowski: Increasing, I think, by the day.

Senator CONROY: Increasing by the day. So how many have you had, just on numbers, not the dollars? How many? Two? Three? Four? Have all companies submitted them?

Mr Payne: I could not give you a precise number of claims.

Senator CONROY: You have four contractors. You sacked your four contractors.

Mr Payne: No. But for each package of work you might have a number of claims. It depends on each one.

Senator CONROY: So has each package of work received a variation?

Mr Payne: Not to my knowledge. No, not every single one. But a number of them have. I cannot tell you how many here today.

Senator CONROY: You are the chief financial officer.

Mr Payne: Sure.

Senator CONROY: You are not across this? It was indicated that the claims were being done by somebody else. Mr Doherty, I think, was one, and Mr Thorpe. They were in charge of this. Mr Adcock indicated, though, there was some conflict of interest possibly if one of them was dealing with their old company. I cannot remember which one now. But that is still the case? He is not handling them?

Mr Payne: Sorry, who is not handling them?

Senator CONROY: Is it Mr Doherty that worked for Silcar or Mr Thorpe that worked for Silcar?

Mr Payne: Mr Doherty did previously work for Silcar, yes.

Senator CONROY: So he is not handling the Silcar one?

Mr Payne: Not to my knowledge.

Senator CONROY: So who is handling them?

Mr Brown: There are some specific arrangements in place for somebody in his organisation to handle Silcar. Of course, there are a number of claims that would routinely be expected under the contracts. There are additional disputed claims which are expected under the contract. In a number of the contractors' cases, they have lodged detail around that. In terms of Visionstream—which proves they have been on the record, and we acknowledge that they have lodged a claim with us—as part of our amending agreement we have agreed with them as to how we handle that and we will get visibility of their cost base to try to conclude by December of this year what an appropriate sum of money is for that organisation in light of their claim. So we have got an approach to handle it, and that is reflected in the accounts. I do not think it is appropriate for a company like ours to describe the specific sums of money attached to each of them.

Senator CONROY: I have not asked you to do that. There will come a point where you will have to justify your total expenses and any percentage increase, so at some point we will be having a discussion about percentage increases at a minimum and, possibly, quantums. This is very germane to the absolute fabrication that Mr Rousselot provided as a justification to the board for not continuing with the fibre-to-the-home rollout. So you are going to have to answer questions about this. It is not going to be a question that you are just going to sweep under the carpet. I think even Dr Switkowski acknowledged that any variations from that point forward, back when we had that first discussion, were the new board's and the new management's. They were not the responsibility of the past. So there will be a lengthy discussion at some point when you roll over and pad out the costs to justify Mr Rousselot's forecasts of costs.

Dr Switkowski: Can I comment on that language?

CHAIR: Please do.

Senator CONROY: You can answer questions, which is your role at the table.

Dr Switkowski: With your indulgence, I think the use of words like 'roll over' and 'pad out'—

Senator CONROY: 'Fabricate' is probably the most provocative.

Dr Switkowski: is provocative, inappropriate and inaccurate.

Senator CONROY: Well, some time in the future, there will be an accounting.

Dr Switkowski: There will be an accounting, and I am very confident of the position and integrity of the process we are using.

Senator CONROY: That Mr Turnbull's yachting mate pulled together.

Senator Fifield: Look, if we want to talk about recreational activities, we could always talk about who might have frequented Eddie Obeid's ski lodge—if you are interested in recreational activities.

Senator CONROY: I did. Sorry, you were interrupted by the minister. I was letting you come back to it.

Dr Switkowski: I have finished my comment.

Senator CONROY: You have made no settlements yet on any of the variation claims?

Dr Switkowski: As Kevin identified, in all contracts and the execution of contracts, variations are expected in many cases. Where those variations are submitted and agreed, payments are made. That has been going on since the beginning of this rollout.

Senator CONROY: And you should not misunderstand. I think the point you make is one I would agree with you on, which is that there are absolutely legitimate variations along the way. I have no qualms at all there.

Dr Switkowski: Then there are disputed claims.

Senator CONROY: Yes.

Dr Switkowski: We have had at least one that has been acknowledged, which is with Visionstream. A process has been put in place.

Senator CONROY: This is Visionstream Tasmania's work or Visionstream mainland work?

Dr Switkowski: It is Tasmania.

Mr Brown: It is specifically to do with Tasmania.

Senator CONROY: So you have acknowledged that Visionstream's dispute was legitimate in Tasmania?

Dr Switkowski: That it is a dispute that requires us to work through a process. I do not know what 'legitimate' means.

Senator CONROY: Sorry, 'legitimate' was the wrong word.

Dr Switkowski: They have a right, as all our contractors have—

Senator CONROY: Every contractor has a right—

Dr Switkowski: to table—

Senator CONROY: A claim.

Dr Switkowski: to table some sort of a claim over and above and different to the normal variation process.

Senator CONROY: And, as has been indicated, quite a lot of them are doing so.

Dr Switkowski: We have acknowledged one.

Senator CONROY: Quite a lot are putting in claims. I am not saying you have acknowledged them. I will use 'acknowledge' as an affirmative stance towards resolving the dispute, rather than a complete try-on just because they have been incompetent in what they were contracted to do. That is probably it.

Dr Switkowski: I will accept that language. I do not know how many other of our contracting partners are in the process of lodging major claims against us, but we know Visionstream is one of them.

Senator CONROY: Well, there is almost no-one left, from the sound of it! When they see a soft touch, they know to stick in a big claim.

Dr Switkowski: Now, now. Do not go there. You keep saying that. It is inflammatory and it is wrong.

Senator CONROY: The actual numbers will prove whether I am right or you are right.

Dr Switkowski: They will prove whether we are right or you are right—exactly.

Senator CONROY: Yes. When the inflated numbers you forecast that you would be paying come to bear, you will be exposed.

Senator Fifield: Chair, I raise a point of order. Comments like 'you will be exposed' are clearly a reflection on the witness.

CHAIR: Exactly. Senator Conroy, can you stick to your—

Senator CONROY: What? I am allowed to reflect on witnesses. I cannot call them a liar, but reflecting on the witnesses—

CHAIR: Stick to your questions.

Senator CONROY: Let me be clear: I am reflecting.

CHAIR: Can you stick to your questioning and refrain from any comments, please.

Senator Fifield: It is an inappropriate reflection.

Senator CONROY: Thanks for your opinion! At the Senate Select Committee on the NBN hearings in December, I asked Dr Switkowski:

The committee will have a number of relatively detailed questions which we want to put to you in writing. We appreciate how busy you have been and how busy the company have been since the change of government. If we provide these to you by the end of the week, would it be possible to get responses by, say, 24 January?

Dr Switkowski replied:

I am sure that that is very reasonable.

It is now a month later and no answers have been provided to the committee. Why not?

Dr Switkowski: Let me—

Senator CONROY: If the answer is that you have provided them to the minister's office and they are in his office, please just indicate that and save time.

Dr Switkowski: I acknowledge your implied criticism and accept it. As I said, this is now the fifth such appearance before the Senate estimates or Senate subcommittee. I think there were more than 250 questions. We have been working our way through them. I am hopeful that we will get them out relatively quickly.

Senator CONROY: So they are actually still with NBN Co? They are not sitting on the minister's desk waiting for him to tick them off?

Dr Switkowski: They may be. I do not know where every question is in the process. Honestly, I do not.

Senator CONROY: I appreciate your candour. We will get grumpier if we have not got them returned to the committee to allow us to make use of the answers to further the questioning.

Dr Switkowski: Could we space out these supplementary hearings, perhaps?

Senator CONROY: Look, NBN Co is used to dealing with hundreds and hundreds and hundreds of questions from the Senate and other parliamentary committees, so it is no surprise to your Canberra office that we would be chasing this number of questions. It is absolutely normal for this committee and other committees to ask you this many questions. So it is nothing new. It might be, I appreciate, to you, but it is absolutely nothing new to the people sitting around you and behind you. They have managed in the past to get the questions in prior to all committee hearings and all estimates. I am just hoping that you can do the same.

CHAIR: Senator Conroy, when your time expires a bit after three, please do not go crook at the chair for the time you are wasting here in your question time.

Senator CONROY: I am trying to be generous to Dr Switkowski.

CHAIR: I do not think you are trying to be generous at all.

Senator CONROY: Possibly for the first time today, you might say.

Senator Fifield: No. The second.

Senator CONROY: The second time today?

Senator Fifield: Yes.

Senator CONROY: On *Agenda* on Sky News on 15 December, Minister Turnbull said:

The main promise, the most important thing we've said about the NBN was that we would tell the truth and we would liberate the management of NBN Co to tell that truth.

Are you feeling liberated?

Dr Switkowski: In terms of disclosure and regular reporting of recent data, I am happy with the progress we have made.

Senator CONROY: Perhaps you are just therefore unfamiliar with what used to be provided. But we will get to that. What directions has the minister provided you to liberate you to tell the truth? I could read the statement of intent or interim statement of intent. Have you had any other—

Dr Switkowski: I have had regular conversations with the minister about the processes by which information flows into his office and information flows to the various stakeholders—obviously, the finance minister and then external stakeholders. You have seen changes over the last few months in terms of the maps that we have released, the weekly stats on the rollout footprint and now a commitment to, on a quarterly basis, provide a fuller commentary around the financial and operational performance of NBN.

Senator CONROY: Speaking in the House of Representatives on 11 February, Minister Turnbull said:

The bottom line is that, as far as NBN projects is concerned, the government's commitment is to be completely transparent.

He also said:

Maximum transparency is going to be given to the project.

Maximum transparency—that is a big call. Have you had any instructions about increasing your transparency?

Dr Switkowski: The conversations I have had with the minister have led to events such as we just completed on Friday, which was a pretty complete disclosure of the performance of NBN.

Senator CONROY: In the same speech, Minister Turnbull said:

Instead of having to have rollout figures dragged out of the minister with great difficulty and pain—

I was actually reading them out in parliament every week—

every week the NBN Co now publishes its latest rollout figures on its website. Every week they are published there.

Are you familiar with the program summary reports that were provided to the previous government?

Dr Switkowski: No.

Senator CONROY: That would be that document.

Dr Switkowski: Well, that has continued.

Senator CONROY: I was hoping you would say that. Do you know what information was provided in those? Are you familiar with it?

Dr Switkowski: I am familiar with that particular report if from this distance it is the one I think it is.

Senator CONROY: Yes. It is entitled 'Program summary report'. It covers the date an FSAM was switched on, the number of premises connected, the take-up rate in every active FSAM in Australia, the contract instructions issued, the number of builds, bulk drops completed et cetera. Sound familiar?

Dr Switkowski: That has certainly been part of the internal management reporting because I observed that on the first day I arrived.

Senator CONROY: I am hoping you get it each week and read it.

Dr Switkowski: We get that report every week and review it, yes.

Senator CONROY: You are using the royal 'we'? I want to make sure you are part of the royal we?

Dr Switkowski: I am chief executive, so yes.

Senator CONROY: So these reports are still prepared internally with the same information? They will be expanding, because the number of—

Dr Switkowski: Yes. For all intents and purposes, yes.

Senator CONROY: Did NBN Co on its website once publish a monthly ready for service report? That would be what this looks like. It is very small. I apologise.

Dr Switkowski: I do not recognise it.

Senator CONROY: It is a monthly ready for service report. I am sure other officers at the table are very familiar with it.

Mr Simon: Yes.

Senator CONROY: Can you advise the committee of what information was provided on that report?

Mr Simon: The monthly *Ready for service* report?

Senator CONROY: Yes.

Mr Simon: It shows both the historical footprint and the future predicted forecast for a footprint becoming available.

Senator CONROY: So, the FSAM name and identifier?

Mr Simon: Yes.

Senator CONROY: The FSA name and identifier, the relevant point of interconnect, the date construction commenced, the date of expected ready for service and the estimated number of premises?

Mr Simon: Correct.

Senator CONROY: Are these reports still produced?

Mr Simon: Yes.

Senator CONROY: Are they still published on NBN Co's website?

Mr Simon: The website does release the footprint. It does show the footprint that is now available. The maps are different to what they were before.

Senator CONROY: No. I asked you whether this was still published, not about maps.

Mr Simon: I cannot see what you are holding up there specifically.

Senator CONROY: That is the monthly *Ready for service* report. You identified that you knew what it was. Are they still published on the website?

Mr Simon: Yes. We still send out—

Senator CONROY: I do not think they are.

Mr Simon: We send out a *Ready for service*—

Senator CONROY: No. That is not what I asked. I am going to come to that. I asked whether they are still published on the website. Could you correct your answer?

Mr Simon: I do not believe that report in that format is published on the website. We send it to our RSP partners for their planning for sales purposes.

Senator Fifield: It may assist the committee if Senator Conroy wants to table a copy.

Senator CONROY: No. The officers are very familiar with these particular documents.

Senator Fifield: Well, it may assist other members of the committee if the document to which he is referring is tabled.

Senator CONROY: I will take it on notice.

Senator Fifield: And I also guess, Chair, the point is that the real issue is the reliability of the data contained.

Senator CONROY: Thanks. Did NBN Co on its website once publish an historical footprint list detailing every premise passed?

Mr Simon: Yes. I think so, yes.

Senator CONROY: You will note that was a question about something that happened in the past. Are these reports published on NBN Co's website today?

CHAIR: Senator Conroy, just so—

Senator CONROY: I am not referring to any document I have in front of me now.

CHAIR: You have none. When you are referring to them, I am not familiar with what you are referring to. It would be handy to—

Senator CONROY: I am actually just now naming a document that used to be on the website. I am asking if the officers are familiar with it.

CHAIR: Continue.

Senator CONROY: Did NBN Co—

Mr Simon: But the maps effectively give people where the footprint is available. That is the purpose of the maps. The premises passed.

Senator CONROY: The answer is no, if any of you actually want to know. I appreciate that these things come and go without you guys necessarily knowing they have come and gone. It happened to me a fair bit too. But the answer is no. So these things have been taken down off your website. Another document has been taken down off your website. Did NBN Co on its website once publish a monthly *Points of interconnect rollout plan*, the POI plan, which provided a list of 121 NBN points of interconnect; the number of premises serviced by each point of interconnect; the respective connectivity service area, or CSA; and expected commissioning dates? Did that used to be up on your website? Are these reports published on NBN Co's website today? The answer is no.

Senator Fifield: Senator, I think the objective of the current government as opposed to the previous government, and the current management of NBN, is to ensure that the information that is actually produced is meaningful. You had lots of information that was put in the public domain through NBN Co that was completely meaningless and that bore little connection to what was actually happening.

Senator CONROY: Maximum transparency. I thank you for your intervention.

Senator Fifield: Pages of data which is wrong and misleading is not transparent. I do not think you are making the case that you were transparent, Senator Conroy. Everyone knows that all your forecasts were meaningless and that you had misleading categories of information.

Senator CONROY: Did NBN Co on its website once publish a proposed footprint listing in both SX and XML file formats providing a list of addresses at least six months in advance of where services were expected to become available? Yes?

Mr Simon: Yes.

Senator CONROY: Are these reports—

Senator Fifield: Again, the reports were so unreliable that the information was useless. The question was: did those services become connected? You had all sorts of reports and all sorts of forecasts which were meaningless.

Senator CONROY: Are these reports published on NBN Co's website today?

Mr Simon: No, because they are useless.

Senator CONROY: Thank you. Did NBN Co once publish on its website rollout boundaries consisting of a zip archive of MIF files indicating the network boundaries for the brownfields fibre, greenfields fibre and fixed wireless footprints where construction had commenced? That would be the maps. So the answer is yes, and obviously they are not there now. I want to ask about some questions—

CHAIR: Have you got some follow-up questions?

Senator CONROY: I am saving time because you are staring at each other. You gave answers to questions on notice. Let us start with question No. 205 and, in particular, questions (a) and (b). Mr Payne, have you got it? I am just looking to see if someone is reaching for them. The information asked for in this question is exactly the same information that was once published in the monthly *Ready for service* report. It is already exactly the same information that, I think, Mr Simon acknowledged is made available to access seekers. So it is produced by the company. In fact, the monthly *Ready for service* spreadsheet is still publicly available. I could have saved myself some time and just looked up the information for myself. But in your answer at 205 you state:

Provision of more detailed information at the Fibre Serving Area Module (FSAM) level is not provided publicly and to report regularly at this level would require an unnecessary diversion of the company’s resources.

This is a report that you produce every week and distribute to people. What unnecessary diversion of resources would it take to publish this on your website? We have asked you for this information and you said, 'It is too costly for us to provide.' It is in your hand every week. That answer is clearly a contempt of the Senate. You actually produce this information internally every week. It used to be up on the website. I am asking why it is not, and you say it is too costly.

Mr Simon: I cannot see what you are holding up. Is this the historical footprint list?

Senator Fifield: We come back to the same point, on a point of order. Senator Conroy is waving a bit of paper around. He says, 'Don't worry. Everyone knows what it is.' It would be put beyond doubt if Senator Conroy would table that piece of paper to which he is referring, as is the usual practice in committees.

Senator CONROY: This is the monthly—

CHAIR: Senator Conroy.

Senator CONROY: You cannot make me table a document if I do not want to.

CHAIR: Senator Conroy, I am speaking. Senator Fawcett.

Senator FAWCETT: Can I move that the document be tabled?

CHAIR: He can so move.

Senator CONROY: No. He can move all he wants. I am not going to do it. So can we not waste my time? Mr Simon knows exactly what document it is, just to be clear.

Mr Simon: I do not because you are holding up a piece of paper.

Senator CONROY: It is the monthly *Ready for service*.

Mr Simon: So the monthly *Ready for service* is not—

Senator CONROY: which, as you said earlier, is distributed to your RSPs.

Mr Simon: But, Senator, by default, our monthly *Ready for service* report cannot be produced weekly. Otherwise it would be a weekly *Ready for service* report.

Senator CONROY: My apologies. A monthly report.

CHAIR: Senator Conroy, order! The committee has noted your refusal to table it. As far as I am concerned, the people need pay little or no attention to what he is waving around because we do not understand what he is waving around either.

Senator CONROY: So back to the question. You produce a monthly *Ready for service* report. Apologies—not weekly. You distribute it, and yet you have told the Senate, this committee, that to regularly report at this level would require an unnecessary diversion of the company's resources. Dr Switkowski, does that sound like you are being maximally transparent or misleading by saying it will cost you money just to publish something that is in your hand?

Dr Switkowski: I do not know what—

Senator CONROY: Mr Simon knows exactly what it is.

Dr Switkowski: I have not seen it.

Senator CONROY: He has even corrected me. That is how well he knows the document.

Dr Switkowski: Here is another view. We got feedback from our construction partners, analysts who follow telecom companies and fund managers as recently as last Friday saying that the level of reporting and disclosure and transparency and regular update of data is the best it has ever been. So we take that as encouragement to continue to do what we are doing.

Senator CONROY: Well, I am now going to what you have signed off and sent to this committee, Dr Switkowski, which is an answer to a question which asked for information and named the report. Your answer was, 'It's not provided publicly and to report regularly at this level would require an unnecessary diversion of the company's resources.' This is a document you produce internally every month.

Dr Switkowski: I have not seen the document.

Senator CONROY: You signed off on what is clearly a contempt of the Senate and a mislead of the Senate.

CHAIR: Senator Conroy, if you tabled the document, we would know what you are talking about.

Senator CONROY: No. Let's not play games. Mr Simon knows exactly what I am talking about.

Senator Fifield: I raise a point of order. Senators cannot just bandy around phrases like 'contempt of the Senate' like confetti.

CHAIR: Exactly.

Senator Fifield: If a senator thinks there is a contempt of the Senate, then they should pursue the appropriate avenues—

CHAIR: Exactly, Minister.

Senator Fifield: through the Senate. But, in the absence of that, they should not use those phrases.

CHAIR: I ask you, Senator Conroy, to retract it, please.

Senator CONROY: I am not retracting it. It is a contempt of the Senate. The answer that was given is a contempt of the Senate.

CHAIR: It is only a claim of that until the Senate decides, Senator Conroy. I will once again ask you to retract.

Senator CONROY: I am alleging it is a contempt of the Senate. Does that make you happy? Now we have wasted a minute.

CHAIR: No, it does not.

Senator CONROY: Dr Switkowski, you have a document which is produced internally. There is no diversion of resources necessary to publish it. It used to be published. Why would you tell this committee there is a diversion of resources? You are responsible for the answer.

Dr Switkowski: So here was the answer. I have just seen it. Maybe I have seen it before, but I have it before me now. It talks about the weekly rollout report and explains what is in the weekly rollout report. It also provides a state-by-state breakdown and is supported by monthly updates of information on the interactive maps, which is true. The provision of more detailed information at the fibre serving area module level is not provided publicly, which is true, and to report regularly at this level would require an unnecessary diversion of the company's resources, which is our view.

Senator CONROY: Your view? You simply have to press a button and it appears on a website. There is no diversion of resources. It is actually misleading the Senate. It is a contempt of the Senate to treat the Senate like that.

Senator Fifield: Is it treason as well, Senator Conroy?

Senator CONROY: No. It is a contempt of the Senate. There is no diversion of resources.

Senator Fifield: You cannot just keep talk about it being misleading, Senator Conroy.

Senator CONROY: It seems quite clear that it is a document you have in your hand or on your computer and you can press 'send' and have it appear on your website. How can that be an unnecessary diversion of resources?

Dr Switkowski: Well, without knowing the entire context of this, what we are trying to do is to make sure that what we publish is meaningful and accurate.

Senator CONROY: Which is information you meaningfully and accurately give each month to your RSPs. I am hoping it is accurate. In fact, this document is unambiguously accurate.

Dr Switkowski: Well, I would not—

Senator CONROY: No. You give it to your RSPs.

Mr Simon: That is accurate, but the document itself has been problematic in the program being able to deliver to those forecasts, so that is the issue.

Senator CONROY: This is a document you give to your RSPs. It is your customers. Are you giving inaccurate information to customers?

CHAIR: Order! Senator Conroy, once again, these allegations and inferences about wrong and false information here are totally unacceptable. I am going to call a private meeting now.

**Proceedings suspended from 14:41 to 14:43**

CHAIR: Continue, Senator Conroy.

Senator CONROY: I will just inform the Senate that the Chair has threatened that if I do not ask questions in a manner that he sees fit—

CHAIR: A point of order, Senator Conroy. Order! The point I made is that if you are going to treat the witnesses like that, I will remove you from the call. I am asking you to be civil to the witnesses, and that is not too much to ask. If you are not going to be civil to the witnesses, I will take the call from you.

Senator CONROY: You will gag me if I do not ask questions the way you want them asked.

CHAIR: I will move around to the other senators if you are not civil to witnesses.

Senator CONROY: We come back to the actual document that we are talking about, which is unequivocally accurate, because you give it to your RSPs. You say it is a forecast, and I am not disagreeing it is a forecast. It was a forecast before and it is a forecast now. But it is the most accurate information that you have. Otherwise you would not be giving it to your customers. So why have you withdrawn it and why will you not put it back on the website? More importantly, when we ask you for a copy of it, why do you allege that it is an unnecessary diversion of resources to print a copy of something you have and email it to the Senate?

Mr Simon: I have just looked at the questions that were asked in this *Hansard*, and the questions are far broader than what is addressed by that report. So I think the comment that we are saying it is a diversion of resources is not in answer to the question you are asking now.

Senator CONROY: You are now trying to interpret my question for me.

Mr Simon: No. I am just reading the questions here and the answer given.

Senator CONROY: I am fully aware of what you are trying to do, Mr Simon.

Dr Switkowski: Chair, here is an example.

CHAIR: Yes, Dr Switkowski.

Dr Switkowski: As I have just discovered, the question had eight parts and we have answered it in half a dozen lines. In the last line, it makes reference to the fact that it would require a diversion of resources. I think Senator Conroy is linking that line to a particular part of whatever one of those eight questions is. That may or may not be legitimate. We cannot tell until we take the time to have a look at it. I think Senator Conroy is being a touch mischievous.

Senator CONROY: I am not being a touch mischievous. Can you produce that report for the Senate committee now? You know exactly which report I am talking about. We have had a discussion.

Senator Fifield: I think that question will be taken on notice, Senator Conroy.

CHAIR: He said he would look at it, Senator Conroy.

Senator Fifield: Dr Switkowski indicated that he would appreciate the opportunity to study the full set of questions.

Senator CONROY: If Dr Switkowski wants to say that, that is fine, but I did not hear him say that. Let him answer for himself.

Dr Switkowski: I will take that on notice.

Senator CONROY: That is two estimates in a row you have taken it on notice, just so we are clear.

Dr Switkowski: No. We have answered—

Senator CONROY: It was put on notice last time. I am asking about the answer.

Dr Switkowski: But you have the answer in front of you.

Senator CONROY: But we do not have the document in front of us. That is the actual point. I am happy that you have taken it on notice. I will move on. I want to ask you about the answer you gave to question on notice 207. Here your answer states:

Please refer to answer to Question 205.

Does question 207 ask for any information about FSAMs?

Dr Switkowski: This asked us for data for about a dozen different dates and premises that had build instructions being issued. So it is a very detailed question about the nature of the construction build.

Senator CONROY: That is the point of putting questions on notice. They can be detailed so you can give us detailed answers.

CHAIR: Senator Conroy, please let them answer.

Senator CONROY: I will come to my question. I am just drawing your attention to it so you could have a quick look at it. The reason given for providing no additional information in relation to question 205 was that information is not provided at FSAM level. What I am confused about is how an answer to question on notice 205 can be an answer to a question that had not been asked about FSAMs. You actually refer me to a question that has nothing to do with the question I actually asked you. It is a completely different question that I ask and you say, 'Go and look at 205.'

Dr Switkowski: I will have to reflect on that and come back to you.

Senator CONROY: I do appreciate that it goes through an iteration process, Dr Switkowski, where it moves beyond your control. But it makes the organisation look silly if the questions quite literally point to a question that has nothing to do with the original question asked.

Dr Switkowski: On this one you may have a point.

Senator CONROY: Still referring to question 207, are you aware that the program summary reports contain the numbers of premises for which NDDs had been released; the number for which construction has commenced; and the number for which build instructions have been issued?

Dr Switkowski: I think that is right.

Senator CONROY: The direction you have from the government is to be more transparent. The minister has made numerous statements about this. You said you have discussed them with him. Since the change of government, you have removed virtually all the publicly available information about the rollout. You have also refused to provide this information in direct answers to questions on notice, even though you produce the information that the Senate has asked for monthly. You have provided an absolutely incorrect direction in one of your answers on why it could not be provided—that it is a costly diversion or, in other words, it is too much money, even though it is a report in front of you. Even the information that is provided in the weekly stats contains only a fraction of information that is actually available to you in the program summary reports. So while you may believe that you are providing more information by standing up and holding press conferences and just spouting the things that you want to talk about, the actual core information that was being provided by the organisation has been withdrawn.

Dr Switkowski: Because it was low-quality information.

Senator CONROY: You have become exceptionally secretive about the rollout.

Dr Switkowski: On the contrary.

Senator CONROY: Announcing a number is not providing information.

Dr Switkowski: You know that we are providing every week by state a breakdown of the progress on the rollout—brownfields, greenfields, fixed wireless and satellite. We have been doing that since shortly after the management changed.

Mr Brown: And you have added premises serviceable.

Dr Switkowski: We have added premises serviceable. In other words, we are trying to put out data that meets the needs of our retail service partners and which we think is helpful to the community at large. The previous information, probably well-intended when it was originally designed in terms of its format, increasingly contained information that had a distant connection to reality.

Senator CONROY: The monthly *Ready for service*, which you still produce and still provide to your RSPs, does not fall into that category at all?

Dr Switkowski: The format is fine. It is the content that is the issue.

Senator CONROY: You are still giving them it. They are your best forecasts. I am not criticising the fact that you give them to them. I am not criticising the fact that you produce information. I am criticising the fact that you keep trying to use an old excuse as to why you will not provide it to this committee. It is not commercially sensitive. It is not anything. It is just like a document you get each month. We have asked for it and you have allegedly misled the Senate about why you will not provide it to us, which is cost. I will move on.

CHAIR: You have five minutes, Senator Conroy.

Senator CONROY: I thought you said three o'clock. I was just pacing myself to three o'clock. How many FOI requests has NBN received since 8 September?

Mr Brown: We have received since the legislation was passed 132 FOI requests.

Senator CONROY: How many of these requests has NBN Co granted?

Mr Brown: Well, we have processed all of them as required.

Senator CONROY: I said granted.

Mr Brown: If by granted you mean provided the information exactly as requested in the first instance, about 20 per cent of those.

Senator CONROY: Twenty per cent.

Mr Brown: And 50 per cent of them are clarified as to exactly what the person is requiring. That usually results in a redefinition of the request that then gets processed.

Senator CONROY: I would like to ask questions to the FOI officer at the next 12 March hearing. Could you provide the FOI officer to the table, thanks?

Dr Switkowski: Noted.

Senator CONROY: Has the NBN Co discussed its approach to FOI requests with the minister's office?

Dr Switkowski: No. Not that I am aware of.

Senator CONROY: I said approach as in approach, not individual instances. Am I correct that on 30 August 2013, NBN Co released under the Freedom of Information Act elements of NBN Co board minutes relating to the achievement of NBN Co's brownfields rollout targets? You are possibly the only one that would know, Mr Brown.

Mr Brown: I am sorry, Senator. Could you just repeat the question?

Senator CONROY: On 30 August 2013, there are NBN board minutes. They are up on your website. So the answer is yes.

Dr Switkowski: It was the first of that instance where a summary of the board minutes was made available following an FOI request that I do recall. It has only ever happened once.

Senator CONROY: I think it was before the election.

Dr Switkowski: But it only happened once, right.

Senator CONROY: I think it might be two.

Dr Switkowski: That is the only instance I am aware of.

Senator CONROY: You are probably familiar with that one. I think there was one a bit earlier. It is not germane. On 16 February, *The* *Age* newspaper reported that an application under the Freedom of Information Act had been declined. The information sought was about the directors who attended the 20 September board meeting. Is that correct?

Mr Brown: That is correct.

Senator CONROY: Rather than state that the NBN Co had declined the request because the reputation of its directors could be damaged if it revealed which of them turned up to a September board meeting. Is that correct?

Mr Brown: That is correct.

Senator CONROY: On page 49 of NBN Co's 2013 annual report, in common with all companies, NBN reports how many board meetings each director was eligible to attend and did attend. Will the 2014 annual report include this information?

Mr Brown: It will report as required under the normal governance processes.

Senator CONROY: How can information that you will producing in your annual report be used as a very specific excuse to not agree to an FOI?

Dr Switkowski: That is easily answered. A full year's roster of board meetings might be 10 to 15 meetings. It is not possible to determine from that aggregate number which meetings individual board members attended. So if there was any particular sensitivity to any one meeting, the—

Senator CONROY: On balance—and you may not even have followed this closely; you are just going for the general discussion—it is an absurd defence. Any reasonable person would say that is an absurd defence.

Dr Switkowski: But it is an accurate statement.

Senator CONROY: It is an absurd defence, okay. If you read what the FOI laws are about, it is an absurd defence. I am just drawing this to your attention on the basis that Minister Turnbull has told you to be maximally transparent. Just to give you some colour and movement, *The* *Age* reported FOI expert Peter Timmins's view that the NBN Co's claim denying the release of this information was speculative, ridiculous and without foundation and a sign of a culture of secrecy spreading through Canberra. That is just so you are aware when you chat to a few analysts.

Dr Switkowski: I read that and I wondered what that guy was smoking.

Senator CONROY: Have you just used parliamentary privilege to reflect on somebody? Oh my goodness!

Dr Switkowski: On a decision.

Senator CONROY: No. You were reflecting on the commentary of Mr Timmins. I am sure Mr Timmins would like an opportunity to respond to you.

Dr Switkowski: And he should have one.

Senator CONROY: I do not mind. I am sure he will manage. I did not see Senator Fifield leap to the defence of Mr Timmins there.

CHAIR: You have five minutes.

Senator CONROY: At the last estimates hearing, Dr Switkowski noted that NBN Co has already started developing a fibre on demand project. How is that progressing?

Dr Switkowski: It is progressing slowly.

Senator CONROY: Could we get a slight expansion on that? You have your product manager down the end.

Mr Simon: We are working through our mixed technology mode. That is part of the assessment that we need to look at—how we form that policy, given consideration to the fibre rollout and the different technology elements and how it would be pulled together. We have not concluded on that yet. We still have to explore all the options. So we are still some ways from finalising that.

Senator CONROY: Three months, six months?

Mr Simon: I think it would be an important part that feeds into the corporate plan. So when that plan is completed.

Senator CONROY: Report it again when all the other questions are complete.

Senator RUSTON: You are not going to filibuster for 50 minutes.

CHAIR: Senator Ruston, you have the call.

Senator CONROY: You are blushing at that one, Senator.

Senator RUSTON: I will give it a go. I will definitely give it a go. Thank you very much. I have a different line of questioning. I understand that the US carrier Verizon made a comment as recently as in the last 24 hours that they have had little or no customer demand for very fast speeds, such as one gigabyte plans. I am wondering whether that is reflected in your experience to date?

Mr Simon: Yes. We do not have any services that sit above 250, which is a quarter of the speed. At the moment, I think we have one business service that is running on that.

Dr Switkowski: It is hard to imagine a residential customer having any combination of services and products that would get anywhere near that. Certainly for business customers there might be an application. But we are a long way away from that becoming a mainstream need.

Senator RUSTON: Just as an example, what sort of applications or customers would potentially seek that sort of size capacity?

Dr Switkowski: I think if you were a small business doing software development and moving large files between locations, hundreds of megabytes per second can be very useful. For example, if you were doing special effects in 3D movies, which some enterprises in Australia do in support of Hollywood studios, they would need that kind of bandwidth and usually have options for getting it, not waiting for NBN to provide a reticulated retail network to do it. There will be others where the information is very data rich. Large quantities of MRI scans et cetera that move from point to point will require lots of bandwidth. Again, those institutions, by and large, have put in place physical infrastructure that provides it today, as do universities. I think the difficulty is that there are applications and organisations that use lots of bandwidth, including big businesses. They have made their own provision, as they always do. In terms of the retail and domestic market, it really is hard in any practical sense to describe the activities of a family, even with hyperactive teenagers, that would get anywhere near 100 megabytes per second any time soon.

Senator RUSTON: I will take that one step further. Is there anything foreseeable on the horizon that might change that situation? Obviously, there are plenty of unknowns out there. Is there anything that is triggering at the moment?

Dr Switkowski: Again, in this forum, we have previously and generally agreed that you really cannot and should not look too many years ahead because few of us have the ability to anticipate correctly the applications and the demand and the technologies that will have developed over the next decade or so. But we are guided by what we are seeing in other countries and other economies, arguably some that are a little more ahead of the curve than us. We do not see that we are going to be surprised over the next two or three years.

Senator RUSTON: Mr McAdam, who is the CEO of Verizon, is quoted as having said:

Going in and digging up yards and deploying fibre in a lot of new markets is not in the cards.

Obviously, he was making those comments in relation to the US market. It seems an interesting comment for him to have made. He obviously was not picking on Senator Conroy's model. He was dealing with his own space. Why do you think he would make a comment like that?

Dr Switkowski: Senator Ruston, we have a dialogue with Verizon, AT&T and others, so we ask those questions. Verizon some years ago believed that their business was going to be well served by rolling out an all-fibre network. They are competing with cable based companies, so they felt that that was a good alternative offering. But they did find that the costs were high; the intrusiveness in terms of laying out new fibre optic cable into homes, again, was a high level of annoyance; and that the demand for the speeds promised and for which they needed to charge to make a business case work simply was not there. So they have now paused in their rollout of cable and recommitted towards staging a fibre to the node rollout, incrementally increasing the speeds that are offered to households in line with technology developments which we can see over the next five years or so, and confident that it will meet the needs of, in their case, north-eastern American customers. It has been that experience and feedback that we have received in the past from British Telecom and other European and North American carriers that has encouraged us to examine more seriously the fibre to the node model, confident that we do not need to do pioneering work—that we can benefit from the experience that has been gained by these other telcos, who appear willing to share their intellectual property with us—and reassured that the speed improvements over the next five or more years will more than keep pace with what we understand will be fast growth in both demand for bandwidth and demand for speed.

Senator RUSTON: In the strategic review, it is stated that their cost per household to per business of fibre had fallen to as low as $US1,600, which is $A1,800 or something. Is that significantly lower than what we are looking at at the moment for the Australian rollout?

Dr Switkowski: It is in the same ballpark as what we are experiencing for our fibre to the premises rollout at the moment, plus or minus.

Senator RUSTON: To date, or what you are projecting into the future?

Dr Switkowski: To date. The particular relevance to us is if companies with the critical density of the rollout, such as Verizon, are incurring costs which I think are high at that number, we have to be mindful of the rate at which our own rollout of an all-fibre network might improve and to what level. That, again, reinforces the notion that it is usually better to find ways to reuse existing infrastructure and upgrade it than to overbuild infrastructure with what looks to be a fairly costly alternative.

Senator RUSTON: Continuing on with the efficiencies of where we are at the moment, notwithstanding we are at a point in time now where we are going to go forward, hopefully. You had an independent assessment of NBN done by KordaMentha. I will quote one of the lines out of it:

The organisation is carrying a level of head count and overhead that has been predicated on the achievement of volumes of rollout and activity in the corporate plan. These volumes obviously have not been met and will not be met for some time.

I suppose the question is: given that you inherited an organisation that had overheads that were not commensurate with what they were doing, how have you been able to deal with that issue? Have you been able to deal with it? If you have, what have you done?

Dr Switkowski: We reported last week that the head count at the end of the calendar year was 2,950 people and holding. We have had an employment freeze in place now for some time. But that head count and the associated costs of all of those heads was, I think it is generally acknowledged, higher than it should be given the level of progress in terms of the rollout. Having said that, the people that NBN have recruited are by and large people with special skills and desirable skills. My approach, in the time that I have been involved in an executive role, has been to guide the organisation to better determine what skills are going to be necessary for the next phase and to protect those skills and those resources and not move too quickly to do anything at the high level head count level. In other words, I am still of the view that if we can get our activity level designed better and more productively, we can move quite quickly over the next year or two and 'grow' into that head count. But it really is going to be one of the early decisions of the incoming chief executive, Bill Morrow. He will not decide in isolation. The board and I will continue to help shape those decisions. But at this stage we acknowledge the costs are higher than they should be. We also acknowledge that we expect this company to grow rather more quickly into the future and perhaps justify the level of investment that we have made in skills and people.

Senator RUSTON: That is an interesting challenge for Mr Morrow when he gets here. One of the other things that the strategic review seemed to draw to everyone's attention was a culture, perhaps, of spending a lot. I think there were some numbers quoted: $152 million was spent on consultants, $11 million on legal fees and $30 million on travel. I am not passing any judgement on whether that was justified or not. If you are trying to instil into an existing organisation a culture that is obviously quite different to the culture of greater freedom, how are you going about trying to instil into this organisation that we really are in pretty tough economic times, there are some pretty severe budgetary constraints and we do need to be more frugal about how we are approaching things? In itself that sometimes can be a greater challenge than actually doing the physical things.

Dr Switkowski: Well, I think there are two dimensions to the response. The strategic review has emphasised how important it is that we contain the overall costs of this project. We will do that by being more, I think, rational in terms of the infrastructure that we use and leverage as well as what we build, how we can bring forward revenues so that we can have the company cash self-sufficient earlier, and how we can have an overall project which will be built in a shorter period of time but yet provide Australians with a better experience. So all of those things go to the issue of conserving cash and managing costs carefully. In terms of the culture of personnel at NBN, I think that has already come a long way. It started even before I was involved. I think the company is very attentive and mindful of the need to be frugal in the way it spends money. For me, the disconnect has been not so much the attitude of employees at NBN in terms of their management of budgets, which I think is quite disciplined, but that there has been quite a contrast in the focus on saving a dollar in terms of controllable costs versus misallocating $100 in terms of capital costs and budget costs. The review and the changed direction and the restatement of priorities et cetera will take care of the big dollars. The smaller dollars, I think, are managed by people around this table and others pretty well.

Senator RUSTON: I suppose that goes to the appointment of Mr Morrow as your CEO. How important were the skills that we have just been talking about in your decision to appoint Mr Morrow as your chief executive? Is this a fundamental part of his background and skill set?

Dr Switkowski: Yes. As you might imagine, Mr Morrow, we put through quite a forensic review process that led us to conclude that he met our requirements and did so with style—in other words, ticked all of the boxes. The boxes included experience in having rolled out networks before; experience in understanding what best practice is around the world; qualities as a leader; qualities as a communicator; qualities as a team builder; a person who put out developed plans, put out targets and then met them; and a person who had a pretty rich set of experiences in working in stressed turnaround environments, where you have to be very attentive to costs and cash flows and meeting the demands of investors and others. So Bill in many ways, without wanting to set too high a bar for him, comes to the job with excellent experiences, clarity as to what the challenges are, with some of the groundwork laid, and I think with a leadership style that will have a positive impact not only internally but in terms of all of the other stakeholders that a CEO has to have good relationships with, including the Senate subcommittees.

Senator RUSTON: Thank you.

Senator SMITH: Excuse my brief absence. Did Senator Ruston ask any questions with regard to the cost-benefit analysis?

Dr Switkowski: No.

Senator SMITH: Could you please update us in terms of the progress of that and what we can expect to see? It might be a bit premature at the moment. Where are we up to with that initiative?

Dr Switkowski: Senator Smith, the cost-benefit analysis review committee was formed, I think, just before Christmas 2013 under the chairmanship of Michael Vertigan. I understand that they have had several meetings and in the last two weeks put out an issues paper, which is fairly complete. In fact, it is very complete in terms of their ambition in the sort of issues that they hope to address and resolve. They are working against a timetable that I understand aims to produce a report in some form in June 2014. They have flagged that they will be taking submissions. Submissions, as I understand it, are being received by that committee. NBN has had meetings with the committee and will continue to have meetings initially to learn of their approach to the task. The task is pretty much captured in the shorthand of their title—cost-benefit analysis of NBN—which will go much more broadly than just economic returns but also the social benefits of having a nationwide ubiquitous broadband network. Adjacent to that they will also look at different forms of industry structure and the position of NBN in that; and the nature of competition, which may or may not be seen to be in need of review within the telecom industry. So they have a broad remit. It is very relevant. NBN has a high interest in their processes and in their findings. We have engaged at an early stage, mainly to express our willingness to be helpful. We are not yet in the position of having made any formal submissions.

Senator SMITH: How would you characterise the industry response to that discussion paper?

Dr Switkowski: I would say the industry has been very welcoming of the review. Without being needlessly provocative, it is the sort of analysis that should have been done much earlier in order to form a view not just of the coldly commercial economic returns of a $40 billion plus investment but also to get a better appreciation of the knock-on effects of providing high bandwidth connectivity to Australians over a larger part of our continent. So I would say the financially oriented community welcomes that dimension to their review. Industry participants are watching with interest and welcome an opportunity to express their views as to what the right kind of industry structure should be and whether NBN as a government owned monopoly provider is the best long-term structure for NBN. Obviously we have an interest in that. I have read the response from Telstra, which has welcomed the initiation of the review. I expect that they will put in a submission as well. Of course, there is the normal rich assortment of experts and commentators that see this as a forum in which they will get rationally engaged on difficult issues and help lay out a scenario into the future that might have more structure to it than what we have at the moment.

Senator SMITH: In the previous evidence, there was an accusation that NBN was being secretive. You did respond to that briefly, I thought. Could you perhaps respond to that accusation that NBN is being secretive.

Dr Switkowski: I find that an astonishing accusation. Everything that we have done upon the change of government, board and management has been in the direction of, firstly, ensuring that the information and the data we have is accurate and meaningful and then, secondly, in a timely fashion, with just in time statistics, releasing it to all of our stakeholders in a form that they can relate to, so that you do not have to employ an analyst to divine the meaning of the numbers. That has certainly been a direction of the minister. He has found in NBN a very cooperative executive that wants to have that kind of disclosure. Many of us come from the private sector where that disclosure is compulsory, so we are hardwired to think along those lines. That certainly has been the approach that we have taken. I think it came together pretty well last Friday, when we invited industry participants, our partners, media, financial analysts and fund managers as well as normal consulting firms and accounting firms to not only listen to our side of the commentary but to interrogate us for as long as they wanted—we went to the end of the questions—on issues that they felt they needed clarification on. We have promised to do that every quarter. From my base—I would claim to be experienced in the way of industry and listed companies—we are not quite there yet, but we are moving in the direction of best practice. That has been our intent. I would say this is evidence of both sincerity in our approach and, I think, transparency in our dealings with NBN.

Senator SMITH: In the previous evidence—I might have been part absent from this—there might have been some discussions about some maps having been available and no longer being available. I think the comment from the witnesses might have been that they were useless. Can you just elaborate on the issue around maps?

Dr Switkowski: I think this followed a line of questioning that suggested that there was a lot of data being published routinely by NBN in the past and that that data is now of a different form and less voluminous than it used to be. That, broadly stated, is correct. But as we have said in this forum and in the subcommittee forums, what was very, very clear as it changed over in the September-October period was that within NBN there was this culture of acquiescing or even supporting quite unreasonable forecasts—unreasonably optimistic—and not recognising that the actual performance and the trend was moving sufficiently far away from those forecasts as to make the gap unable to be closed under any set of reasonable interventions. The information that was out there, aside from the headlines that generated it in the media, in business and in households as to the imminence of access to the NBN was uneven in its accuracy. There were colours on maps that said NBN is in your area and you will be able to connect within whatever the number was—12 months. Twelve months later, that was still the case and it was still 12 months out. I do not for a moment criticise the original intent—I think the intent was good; it was to be complete in the disclosure of the information—but it was not kept accurate or current. Then as the pressure increased on NBN, in terms of our failure to hit targets, those maps were not adjusted and those forecasts were not adjusted finely enough. In the end, I thought—others did too—that they were misleading. So we have cut back on the maps, indicating only those areas where we know construction has commenced and where we are confident that a person reading those maps can reasonably conclude that they will be connected in a reasonable period of time.

There is just one other point. Last Friday, we also conceded that as we got the process better organised and as our whole supply chain from design to the end of construction and activation is smoother and more consistent and more reliable, we will continue to evolve the way we report. We may well report at an earlier time in our process only if we are completely confident that what that foreshadows is something that we will actually deliver.

Senator SMITH: I got the impression from some of the other questioning that targets that are unachievable are more important than targets that are achievable. From your evidence, I am getting the impression that people should prepare themselves for the fact that there might be a more honest and open discussion about where the rollout of the NBN is. They should prepare themselves for the fact that things might go very, very well for a while and they might hit a bumpy road and that that is part of recalibrating, if you like, the organisation and bringing expectations not just from NBN but the community back to a more achievable position.

Dr Switkowski: I quite agree with that. I will give you an example that I am aware of. As we reviewed our weekly rollout statistics, it was noted that the forward orders being placed by developers of greenfield estates had begun to fall. The reaction was that this was a worrying sign. We went in behind that to get an understanding from the developers what was happening. Because they are building more confidence in our forecasts, they are not placing orders very, very early in the expectation that some time later they will be fulfilled. In other words, preliminarily it is a sign of growing confidence in our forecasting numbers and in our disclosure of data as to areas. We are getting that kind of reinforcement quite regularly. That is why I am distressed a little about Senator Conroy's very critical attitude to this level of transparency. At an operating and commercial level, most of the feedback that we are getting from retail service providers, construction partners and vendors is that this quality, quantity timeliness of information is very welcome.

Senator SMITH: I want to go to your opening statement. Given the discussions around the suitability of the copper network that have dominated the Senate select inquiries et cetera, not much has been asked of your opening statement, where you talk about the construction of two small-scale copper serving area modules and NBN Co inviting retail service providers to participate in a fibre to the node end user trial. Can you elaborate on that a bit more and perhaps with some timeframes?

Mr Simon: The trial is currently for fibre to the basement. So we have worked with RSPs to select some buildings. We are also selecting some fibre to the node trials in which we are building out, as I say, in those areas. Fibre to the basement is ahead of fibre to node. As we roll out those trials in the next couple of months, we will be connecting end users and working with our RSP customers. We will work with both of them.

Dr Switkowski: Again—and I think we have made this point before—these trials are not trials to convince us the technology works. We know it works. We have calibrated and benchmarked against overseas experience and we have had experts come and advise us. These are trials to design a process, in partnership with our retail service providers and our current and future construction partners, so that we can take the kinks out of a process in design to construction to activation and make it as repeatable and simple as we can so that we can scale up to numbers. Today we are arguing the difference between 3,000, 4,000 and 5,000 homes passed a week. We know we have to get to 25,000 homes passed per week. At any stage of this rollout, that will have to be sustained for a five-year period without break. So, on the one hand, it is unimportant what happens month to month at this early stage, but it is very important if it helps shape the design of a process that will then be scaled up to this level of deployment over the remainder of this decade.

Senator SMITH: If I could put that back to you in layman's terms—

Dr Switkowski: Was that not in layman's terms?

Senator SMITH: I am the layman. I will send it as a layman back to you. So designing the process and getting the process design correct early means that when we upscale to larger numbers of rollout, the system operates much more efficiently, there are fewer kinks in the chain and then we are able to get those very, very big rollout figures that people are expecting?

Mr Brown: Exactly. I might just add to that a real live example. As we said, we are in MDUs at the moment. We have struggled with MDUs from a fibring up the building perspective. We have eight MDUs where we are trialling the methodology about how you actually install the VDSL box to the basement. One of the things we have come across is how you get authority to hook in the power. That is something that only real world experience will teach you—how you can negotiate with a body corporate about whether they pay, we pay and how they charge the houses. It is that sort of experience that we are getting to the bottom of. As we go to scale, we have fixed all that before we start to go to hundreds of MDUs.

CHAIR: Thank you, Mr Brown. We will now move on to Senator Ludlam.

Senator LUDLAM: I have a fairly disparate set of questions. I want to bring you first to a piece that you are no doubt aware of that ran in *The* *Financial Review* this morning by James Hutchinson. It reflects on some remarks you made, Dr Switkowski, around private funding and the risks attendant on private funding, particularly in the later stages of the build. It was assumed under the previous business plan that the company would be profitable enough to raise its own debt without needing any kind of government guarantee. That is the basic outline of the argument, is it not?

Dr Switkowski: Yes.

Senator LUDLAM: To take it a step further, you have acknowledged—we covered this ground a bit in the select committee hearings—the company is likely to make a lower rate of return partly because of the technology mix that has been chosen and the fact that you cannot sell the high-end products on some parts of the network or some parts of your customer base. Is that also a reasonable contention?

Dr Switkowski: Firstly, I think the rates of returns in the original plan are easily subjected to challenge. I do not think anybody should be confident to use them as a reference point.

Senator LUDLAM: We could have a whole separate argument about that. I am interested in your assumptions for your part.

Dr Switkowski: Okay. Park that. We have quite different assumptions in terms of, for example, average revenue per user trends.

Senator LUDLAM: Yes.

Dr Switkowski: And as a result of that and other things, you get an economic return at five plus per cent under the scenario that we are currently contemplating.

Senator LUDLAM: Part of the point that I am making, though, is that your average revenue per user is sensitive to the kind of technology that you can put them on. If you have a much larger fraction of your customer base parked in perpetuity on copper, you cannot offer them the high-end products that you can offer customers in the fibre footprint, to whom you will be charging more money.

Dr Switkowski: This is a topic that may take us into next week.

Senator LUDLAM: It is fairly simple.

Dr Switkowski: No, it is not, because we have quite different views on this, as we have had in the past. You can assume, as I think an earlier plan assumed, that as you layer on higher-speed products, that will drive your RPU up at an attractive rate, or you can say that consumer behaviour is such that, for a relatively similar amount of dollars per month, users of broadband connectivity expect to get constantly improving speeds.

Senator LUDLAM: Which you cannot offer them because they are going to be stuck on fibre to the node.

Dr Switkowski: In a way, our assumption is insensitive to assumptions around speed mix. What we say is consumers are going to pay whatever the wholesale price is in our model—$40 or thereabouts. It will move up—we have different scenarios—at CPI. Underneath it, you will have a set of assumptions as to speed. I will have a different set of assumptions. At the end of the day, the residential consumer will still only pay $40 plus CPI. That is quite a critical assumption. I acknowledge that other people can have an argument that says, 'No. There will be a large market that is going to pay twice as much as that.' My response would be that I am yet to see it anywhere in the world.

Senator LUDLAM: We are already seeing it here in data provided to this committee and to the previous iteration of the joint committee into the NBN. Your customer base and the fibre footprint will be taking up top tier products at a much higher rate than was predicted. This is admittedly going back four or five years.

Dr Switkowski: It is now asymptoting towards closer to prediction. Again, I caution anybody from extrapolating, as there is an inclination to, from the experience for the first 100,000 customers.

Senator LUDLAM: Why? You were not just building the network into areas likely to have a high uptake. You are building it into rural and regional Tasmania and all over the place.

Dr Switkowski: I acknowledge that the geographic and demographic spread was typical, but the uptake in terms of early adopters was probably not. So if I have had to wave my hands around, which I know cannot be captured, I would not be at all surprised.

Senator LUDLAM: The video broadcast will get it.

Dr Switkowski: I would not be surprised to find that the initial uptake was by bandwidth hungry early adopters. As we add more customers, that will come down to the assumed levels. With the passage of another year or two, as bandwidth hungry applications become more popular, the bandwidth demand will increase but the price will not. That is a critical assumption. You may well want to debate that, but you would be debating it against a panel not just here but experts that take a different view.

Senator LUDLAM: So you think that the rate of return that you are going to be able to provide back to the taxpayer or whoever owns the company is insensitive to the technology mix that you are going to be stranding people on?

Dr Switkowski: At the revenue level, that is probably true. If there are sharp changes in technology, that may change the costs.

Senator LUDLAM: I cannot imagine these sharp changes in technology. I am trying to compare people on the fibre footprint, to whom you can effectively offer an open-ended upgrade path as technology improves, to the two-thirds of the population that will be stuck inside your copper footprint, who will have a ceiling imposed over their heads and you will not be able to offer those top-tier services to.

Dr Switkowski: I will go back to the strategic review conclusions. If we take 100 per cent of the 12 million points of connection that will constitute the end of the rollout, of the 12 million, one million will be within a satellite and fixed wireless footprint. Rounding out, 11 million are left. Of the 11 million, about three million will be in a HFC footprint. Another three million will be in an all-fibre footprint, and five million will be in an FTTN construct. So it is five out of the 12.

Senator LUDLAM: And you are submitting that that is likely to have no impact at all on your average revenue per user?

Dr Switkowski: That is the assumption because of the conviction that fibre to the node, the path that we are on in terms of speed, which will go from 25 to 50 in 2019 to 100 beyond that, will stay—

Senator LUDLAM: How are you going to go to 100 in the fibre-to-the-node footprint? How are you going to do that without ripping these nodes out and just cabling people up? How are you going to go to 100 meg service for fibre to the node?

Dr Switkowski: Let us just look at it. Beyond 2020, these technologies that are currently being test-bedded in a laboratory—G.fast et cetera—will get us into that triple digit megabyte per second bracket.

Senator LUDLAM: To the whole population, netting out those on lines and satellite?

Dr Switkowski: No. Again, it will be progressive initially. Again, the execution of this remains ahead of us. It is dependent upon distance from a node. Initially it will be available to 300 metres from the node and eventually 600 or 700. Once we get to 600 metres away, we have 90 per cent of the population in the copper footprint that are capable of getting these higher speeds. These are the sorts of details that I may actually be getting wrong but which were part of the strategic review spreadsheet and model that underpin the conclusions that we drew.

Senator LUDLAM: I will forgive you the details. I guess we will have to agree to disagree that it is going to have no impact. But our time is a bit limited, so I will need to move us on. Could you just confirm for us your understanding of voices inside the coalition party who will be proposing that you be flogged off and privatised along with Australia Post, SBS and all the other stuff? Can you just confirm for me your understanding of your legal obligations in terms of the part or whole sale of NBN Corporation?

Dr Switkowski: I am not even sure that I understand the question.

Senator LUDLAM: There are legislative preconditions for the sale of NBN Co.

I am just wondering if you are aware of what they are?

Dr Switkowski: Firstly, at NBN, and that includes me, there is no conversation about any path to privatisation.

Senator LUDLAM: Inside the company. What about inside the coalition party room?

Dr Switkowski: I have no insights into the coalition.

Senator SMITH: And neither do you, Senator Ludlam.

Senator LUDLAM: No. That is why I am asking. Feel free to enlighten us, if you will.

Senator SMITH: There is nothing.

CHAIR: So you are saying, Dr Switkowski, that under new technology, the copper will deliver 100 megs or so?

Dr Switkowski: We are on a path to get to 100 megabytes per second on copper within several hundred metres of the node in the 2020s.

CHAIR: Is that what they are getting in the UK similar?

Dr Switkowski: They are not reporting that technology at the moment. In the UK, the best they have done is, I think, 80. But they are getting close. This was a 2013 stat.

CHAIR: Thanks.

Senator LUDLAM: That is all right. It is useful to clarify. While we are on that subject, how many people did you acknowledge were outside that 600-metre catchment?

Dr Switkowski: I think in the copper footprint it is 15 per cent or thereabouts.

Senator LUDLAM: Of the overall 12 million?

Dr Switkowski: No. The copper network.

Senator LUDLAM: I see.

Dr Switkowski: Fifteen per cent of the households getting copper are 600 or more metres away from the node.

Senator LUDLAM: Thanks.

CHAIR: Is that just five million, that figure you said? Is it about five and a half?

Dr Switkowski: At the moment, the number of households inside the Telstra copper footprint is probably seven million—of that order. That number is falling away as people do other things. I was asked a question about future funding. Evidently, the original plan, which goes back a little way, anticipated tapping into the debt market in 2015. I think the context of the question was whether we will be in a position to raise debt in a year's time. The answer is no.

Senator LUDLAM: What about two years?

Dr Switkowski: No.

Senator LUDLAM: What about ever?

Dr Switkowski: Yes.

Senator LUDLAM: At what point do you think you are going to have the sort of financial metrics that would allow you to do that?

Dr Switkowski: There are two elements to that. One is the government has made clear thus far that the total amount of government equity would be $29.5 billion. We know that the revised plan is going to cost more than that. So in order to complete the rollout, we are going to have to find alternative financing structures. We do not need to do that for some years. If nothing else changes, we will have to find another $10 billion to $14 billion of financing. Towards the end of the rollout, as the business model is proved out—whether your assumptions are right or mine, we will know by then—

Senator LUDLAM: If I am right, you will find that job a bit easier.

Dr Switkowski: Much easier. And I hope you are right. I really, really do. There will be any number of financing bodies that will want to partner up with NBN in terms of providing debt or other forms of financing to complete the rollout. The other dimension here is that the cost-benefit analysis that is under the chair of Mike Vertigan may well reflect upon industry structure and government ownership of NBN and form other views. So we stand alert to what they might be.

Senator LUDLAM: I am not sure whether I have put to you before this question. Have you been approached to provide some financial metrics for benefits apart from the costs, which are presumably a lot easier to model, of building a network like the one you are building?

Dr Switkowski: Not yet. I would hope we will be. We will certainly volunteer them.

Senator LUDLAM: Very good. I come back to your obligations as far as the part or total privatisation of NBN Co. Are you familiar with how the act is drafted?

Dr Switkowski: Not in detail. I would say the first step would be a discussion with the minister. I doubt that he is familiar with it.

Senator LUDLAM: I suspect he probably would be. This was hashed out in depth when the enabling legislation was put through. But, just for your information, it is actually not legally possible for the company to be privatised until the network is complete. So I am just wondering what your metrics for completion are as far as the terms of your act are concerned?

Dr Switkowski: At this stage, Senator, I am in the midst of strategic review scenario six that puts completion around 2020.

Senator LUDLAM: We took evidence in Perth a couple of weeks ago in the select committee, including from a company that has been engaged, I believe, by some of your subcontractors to make much greater use of Telstra's existing network of pits and ducts. It is a technology that effectively involves just blowing pressurised water through the ducts so that they can be more easily reused. Are you familiar with that company or that technology?

Dr Switkowski: Only in having read the media reports.

Senator LUDLAM: Was your interest piqued by the media reports and the degree to which the costs and the time and the rollout was radically improved by using much more of Telstra's infrastructure?

Dr Switkowski: I think that was labelled as a microtrenching technology. Look, we welcome every idea and every innovation.

Senator LUDLAM: What did you do when you saw those press reports?

Dr Switkowski: I had a chat with people in the technology group.

Senator LUDLAM: What did they tell you?

Dr Switkowski: They were, firstly, familiar with the technology and were curious but not moved to immediately trial it.

Senator LUDLAM: Why is that? I find that a bit inconceivable. The committee was impressed. We cannot name the company for commercial-in-confidence reasons. We said we would keep their identity confidential. But your pointy heads in the accounting department did not think it was worth—

Dr Switkowski: No. I did not say the accounting department. Engineers. We have quite a number of projects and many, many ideas of ways in which we can reduce costs and accelerate the rollout. We welcome all those ideas. Where we feel that there is a reasonable chance that they could be put into practice, we will follow up.

Senator LUDLAM: Can I commend that one to you and maybe pass it to your financial people. Maybe they will be impressed in ways that others will not.

Dr Switkowski: Well, it is more to our operating people to see how we actually play it.

Senator LUDLAM: Well, I certainly commend it to you.

Dr Switkowski: Can you give me more information?

Senator LUDLAM: Maybe not at the table. We were asked to keep their material confidential. My colleagues in Melbourne have approached us about a residents association, which has informed us that NBN has been rolled out in a whole neighbouring area around a particular public housing estate in Carlton. Because of technical issues around MDUs, this estate has been left behind. I can be as specific as you like. They are now quite worried that they will not be connected. Can you give us any comfort? Maybe you addressed this in passing in your opening statement. They have had a philanthropic offer for a wireless system for the whole estate if it can be connected to NBN Co's hardware. It is the Carlton public housing estate across six buildings. I presume you are familiar with the area. It is just immediately north of Melbourne.

Dr Switkowski: I am.

Senator LUDLAM: The estate is listed as build commenced on the maps on your website. I am just wondering whether the rollout is flowing around those estates or whether you can give them some comfort tonight.

Dr Switkowski: I guess we will take that one on notice and get more information. I am familiar with the area. It is adjacent to the university and the cemetery. I do not know what the build out is.

Senator LUDLAM: The boundary is between Lygon Street, Drummond, Elgin and Nicholson streets. So it is that block immediately north of town.

Dr Switkowski: We shall follow up.

Senator LUDLAM: If you could. I guess they are very concerned that the rollout is effectively going to flow around them. What is your policy on public housing as a whole? Is there anything there that might affect them? There is no policy to exclude?

Mr Brown: Public housing is included in our footprint.

Senator LUDLAM: I would have thought so.

Mr Brown: There are some process issues which we have tackled in most of the states now, but not all, in terms of getting approval from the actual state governments, who are officially the owners of those premises. There is a lot of approval process steps that they actually have to positively wade us through. That has resulted in some delays in some areas. But most of that is now dealt with.

Senator LUDLAM: Are you aware of whether this area is—

Mr Brown: No. Specifically, I will have to take it on notice. We will get you an answer on the specifics of that.

Senator LUDLAM: I will just run through what I was going to put on notice, given these gentlemen at the table cannot help me. This is so you have a bit of structure around what I am asking. Is each apartment intended to be connected, or are you going to try one of these units in the basement, which I know your minister is very interested in? Will you be cabling up each apartment? Where can we find some confirmation about the status of when it will eventually be connected? Will private homes around the public housing be connected before the public housing estates? If so, why is that the case? So anything at all you can provide us to give them some confidence would be greatly appreciated.

Dr Switkowski: We shall certainly do that.

Senator LUDLAM: If I am out of time, I will leave it there. Thank you, Chair.

CHAIR: Thank you, Senator Ludlam. Senator O'Neill, you have about five minutes.

Senator O'NEILL: I am sure that you had a very nice time coming to the Central Coast at some point. It was a very excited community when we got the very early rollout of the NBN fibre to the premises. Roughly, one-third of the Central Coast has been committed to that technology. It is of some concern to the residents that they would have had fibre to the premises right across by 2016. The maps that have been in discussion here this afternoon were in fact very accurate on the Central Coast. People made plans with regard to their work et cetera about the rollout, which was on time and was being delivered. Given we are not in government any more, it is hard to get the statistics. Could you possibly provide the committee with details of the number of places that have access to the NBN—proper fibre to the premises—on the Central Coast? How many of those are signed up and active? If community representations to me are any indication, it is a very high take-up rate. Could we also get an indication of people who signed up in good faith in anticipation of the rollout continuing to them who now no longer have the opportunity to have fibre to the premises because of a change in government and a change in government policy? In fact, I would like some figures on those who are happy and those who are disappointed. With regard to transparency and stakeholder disclosure, could you take me through the decision making and the evidence base that has led you to select Epping in Victoria and particularly Umina-Woy Woy on the Central Coast as the trial sites for the fibre-to-the-node testing?

Mr Brown: The basis of the selection of the two locations was predominantly the availability of spare copper lines. We are effectively putting down about 10 FTTN cabinets. Again, the trial is about the construction process or, just as importantly, the migration process of how you would connect a customer and, indeed, what product can be sustained. There is no doubt the technology works. The question is how you commercialise the product. Remember that that is the focus. The real issue was whether we could pick places that were least disruptive that actually have sufficient copper pairs where we are not interfering with the existing Telstra network. In discussions with Telstra, they were the two places that made best sense. That was a decision made by NBN but with discussions with Telstra about what is the easiest place to start with relative availability of copper.

Senator O'NEILL: Could you provide us with some documentation about the processes that were undertaken? Could you confirm or clarify whether community consultation was undertaken? Were local businesses, local councils and local representatives of the Central Coast involved in that decision making?

Mr Brown: We will confirm that. As far as I am aware, we have not consulted with local businesses. This is a very small, very specific purpose trial. It is to do with how we build things and how we connect people. We are not offering commercial services. This is an opportunity to, if you like, iron out the bugs without disrupting the residents.

Senator O'NEILL: I hope you are already aware of a submission by over 250 businesses from the Central Coast, which articulated the case for a trial of the whole of the Central Coast as a fibre-to-the-premises rollout to do proper demographic and research studies about the impact of a regional rollout in terms of telehealth, economic development, social benefits, education and all of those modes of improvement that we are already beginning to see the edge of with the rollout thus far. To put this issue of fibre to the node in the Central Coast in context, we are already concerned about a digitally divided community where fibre to the node is rolling out, particularly in the area of Umina. There is considerable concern expressed by the chamber of commerce locally not only that they are going to be receiving an inferior grade of access to the digital world by comparison with their competitors in the same region but that there will be an impact on the streetscape of a tourist destination with these new fibre to the node fridge type things on the streets. In the footprint, is it 100 premises that you are going to service with this fibre to the node? Is that correct?

Mr Brown: It is in that range.

CHAIR: Senator O'Neill, this is your last question.

Mr Brown: It is quite small in number. Obviously, our intent is not to create an impact in the local community. Our intent is to test how to do this job and what products and services you can run over the network and what not.

Senator O'NEILL: How do you intend to respond to the community concern about this, though, that it will have this visual impact in a highly sought after tourist destination and that there will be a differentiation of access to technology for the business sector? I have a number of questions on this that I will have to put on notice.

CHAIR: You will have to put them on notice, Senator O'Neill, because we are frankly out of time. We have been two hours and 50 minutes with this mob.

Mr Brown: I will add that we will have quite an extensive community consultation process around those communities so it is not a surprise to them. The cabinets, as we envisage them, will not be significantly larger than the FTTP cabinets that we are already putting in. Again, we will talk to the local community so there are no surprises.

CHAIR: Time has expired. Senator O'Neill, you will have to put further questions on notice. Dr Switkowski and your group, thank you for your presence today. Thank you for answering questions. I apologise for the behaviour of some.

**Proceedings suspended from 15:51 to 16:04**

**Australia Post**

CHAIR: The committee will resume. I welcome Mr Fahour from Australia Post. Mr Fahour, there has been a lot going on with Australia Post recently with inquiries et cetera. I will give you five minutes to make an opening statement.

Mr Fahour: Good afternoon, Chairman. Thank you very much. Happy new year to the Senate. I will be brief. I would like to give an overview of our business position at the halfway point of this financial year. We are continuing to manage the business in a rapidly changing market while focussing on meeting the needs of our many stakeholders, including our workforce, the Australian community, the government as our shareholder, our business customers and our business partners, such as the licensed post offices. In relation to our LPOs, we have carefully listened and made some careful consideration of their challenges. In response to these challenges, we have implemented a number of new LPO payment streams and brought forward our post office box payment, which injected $35 million to the LPOs. This will help support their business and maintain their viability of our retail network in the best interests of the Australian community.

We also lodged a notification with the ACCC proposing to increase the basic postage rate from 60 to 70c, which pleasingly the ACCC last week did not object to. This 10c increase will allow us to partially offset the growing losses that we are seeing in our letter services. As noted in the ACCC media release, though, the magnitude of the under-recovery is such that, even with the proposed price increase, Australia Post is unlikely to recover its efficient levels of costs. This stamp price increase will directly flow through to all licensed post office operators in the form of increased payments to the tune of $25 million per annum, which we believe will help in their immediate viability. This $25 million increase will see a 16.7 per cent boost for all delivery payments and represents approximately an $8,500 increase per annum in payments to the average LPO.

Furthermore, included in our stamp price proposal is the introduction for the first time in our history of a concession rate stamp for 5.7 million eligible Australians so they will continue to have access to the original 60c postage until 2017. We will deliver this new feature through the creation of a concession account at all post offices. In this way, there will be no cost of living impact for vulnerable Australians, particularly pensioners, job seekers and low income earners who hold a valid concession card from the federal government. For the rest of the Australian community, the 70c domestic stamp rate still represents great value, and Australians will still have among the cheapest stamp prices in the OECD.

We will continue to enjoy growth in the parcel side of the business, largely as a result of trends in online shopping. However, this is a highly competitive market with significant international competition. However, the decline of our letters and traditional postal services is accelerating. At the current rate, we anticipate Australia Post as a whole is likely to lose money in the second half of this financial year for the first time since corporatisation. Our losses in postal services also for the first time will exceed our profit in parcels. Our gross profit in the full year 2013-14 will be less than the full year 2012-13 reported profits. Given our projected losses, it is unlikely we will be able to pay future dividends to the federal government. While this decline in traditional postal services is inevitable, given the changing customer and societal preferences, we want to assure the Senate that we will continue to evolve and tailor our products, services and network to support the remaining letters we have in the system. Secondly, we are also continuing to invest and grow our non-regulated services to ensure they remain high performing, competitive businesses.

Australia Post will continue to listen carefully to all stakeholders and respond to their changes. We have survived for 205 years and this has only been possible with continued change and investment in creating new products and services that are valued and relevant. The consequences of not changing are significant. That concludes my opening remarks, Chair. I am very happy, with my team, to answer any questions the committee may have.

CHAIR: Thank you, Mr Fahour. Before handing to Senator Pratt, you have brought forward the payments for the post boxes by two months to help the cash flow of the LPOs. Correct?

Mr Fahour: That is correct. As part of the consultation process through the Senate inquiry that took place late last year, one of the items we agreed on is to bring forward $35 million from April into February.

CHAIR: Postage stamps are going up to 70c except for three years for those 5.7 million Australians—pensioners et cetera. That will deliver some more money, hopefully, to those LPOs. Do you have any further plans in the future that can secure more and stable income into our post offices?

Mr Fahour: Australia Post has committed to work in consultation with the licensed post office association, both the groupings as well as POAAL and a number of other individual post offices. What we have said publicly to them and what we have said to the Senate inquiry is not only are we committed to what we have done but we are also committed to continued consultation and identifying new streams. I am looking forward to some hopefully more positive announcements into the future.

CHAIR: Thanks, Mr Fahour.

Senator PRATT: Mr Fahour, I note that on 20 February the ACCC advised that it had decided not to object to the proposed increase in the price of the ordinary letter service by 16 per cent to 70c. Has the minister been informed of the proposed increase, as required under the act? If he was informed less than 30 days ago, has the minister indicated whether he intends to disprove or approve the increase?

Mr Fahour: We are following the process as per the procedure. The minister has 30 days to respond to determine if they object to our proposal. As at this stage, we have not received that advice.

Senator PRATT: Do we know when that 30 days expires?

Mr Fahour: In terms of the technicality, we will take on notice and come back to you as to the exact day the 30 days kicks in.

Senator PRATT: But you have submitted it, so we are within that 30 days now.

Mr Fahour: That is correct.

Senator PRATT: So it cannot be very long away. The issue is that questions on notice may not get answered within 30 days. We may know the answer before then. Is it possible for you to get back to us in a timely manner with that?

Mr Fahour: Sure.

Senator PRATT: You must have some idea. Was it lodged a week ago, two weeks ago?

Mr Fahour: Sure. I am happy to come back to you.

Senator PRATT: Are you able to give us a gist of how much of a countdown has started?

Mr Fahour: The exact day I will come back to you with. It would be in March some time when the 30 days ceases.

Senator PRATT: That would make logical sense given it is still February. We will definitely be out of 30 days by the time April gets here. Early March? Late March?

Mr Fahour: Senator, I am very happy to soon give you the precise day.

Senator PRATT: Do you know the date?

Mr Fahour: I actually do not want to give you misleading information. There is no secrecy. I just do not want to give you an incorrect answer.

Senator PRATT: I would not read it as incorrect or take it as you misleading the Senate if you have some approximate view about what that might be, if you are able to give us an idea now.

Mr Fahour: Sure. It would be approximately in the third week of March.

Senator PRATT: That is terrific. Thank you. Good. Could you please provide a breakdown of your record against your on-time delivery community service obligation. Ninety-four per cent of all reserved services letters are as per the delivery timetable by each state and by each month of 2013 and available for the months of 2014. I do understand you might have to take that on notice. That would be terrific. I would be grateful if you are able to supply that answer before the end of March.

Mr Fahour: I am not committing to when we would come back to you on that, but we will take it on notice.

Senator PRATT: Thank you. I note that Australia Post was reported in January to have conducted a survey on the possibility of reducing post deliveries to only three days a week, with five-day delivery for a fee. What were the results of that survey, Mr Fahour?

Mr Fahour: Australia Post did not make any advice with regard to changes in service delivery. What Australia Post did, which it does on a regular basis, is conduct a survey to ask our customers about their preferences on a range of products and services that we have. It is quite common and quite normal for companies to ask their customers about the different products and services and prices. We conducted this survey. We are compiling the statistics with regard to this survey. We are hoping that over the coming couple of months we will be able to process them and make some appropriate information. I am sure it will be ready for the next Senate estimates.

Senator PRATT: My question is: what was the outcome of that survey? You are saying it has not yet been collated. Do you have a rough idea about the data in terms of how people feel about a change in the delivery schedule?

Mr Fahour: No.

Senator PRATT: Is it possible for this committee to have a copy of the raw survey? Not the data at this point, because clearly you are still collating that, but the questions that were presented to consumers.

Mr Fahour: The questions? I would be delighted to give you the questions, Senator.

Senator PRATT: Take on notice that yes, the committee would like a copy of the results when collated. That is terrific.

Mr Fahour: If you are happy, Senator, as I said, by the time the next one comes, we will have good, full results and we will show the full results. We are happy with that.

Senator PRATT: Thank you. Has the increase in the price of standard letters removed the need to consider reducing the quality of your service? If not, why not? You have reflected a little on some of those issues in your opening statement.

Mr Fahour: Would you remind repeating the question? I am sorry, but I did not understand it completely.

Senator PRATT: Has the increase in the price of standard letters removed the need to consider reducing the regularity or quality of Australia Post services? You would probably not frame that question in the same way that I have asked it. If not, why not? You have reflected on that a little in your opening statement.

Mr Fahour: Sure. What I said in my opening statement remains, which is that the 10c increase will allow us to partially offset the growing losses that we see in our letter services. According to the ACCC, those losses are not likely to be eliminated through this. So I think there are two separate issues right now. One is how we meet the service standards which we are committed to. At the same time, our act also requires us to make a commercial rate of return, which we are failing on.

Senator PRATT: So the answer is partially yes, it reduces some of the pressure. Clearly, those questions remain.

Mr Fahour: My answer stands, Senator.

Senator PRATT: Australia Post will require concession cardholders to apply for an Australia Post concession card to access 60c concession rate stamps. What is the process to apply for this card? How will it be used? Will there be a cap on the number of stamps a pensioner may be able to acquire at any one time? Can you take us through how it will work operationally?

Mr Fahour: Certainly, Senator. I will get our head of retail, Christine Corbett, to give you that at a high level. It is fair to say that this is something that we have worked on which we believe is a really positive thing for the community, especially for age pensioners. At the same time, we want to be careful that the people who it is intended for get those discounted rates and, therefore, it remains at 60c. Another really important consideration for us is to ensure that we allocate the number that was intended for them to use plus a little more just in case they buy more than the average. So in creating, as I mentioned in my opening statement, this concession account for the valid holders, we also want to look after them and do it in a good way. Let me get Ms Corbett to give you a brief summary of those three or four points.

Ms Corbett: Should the BPR price increase go through, our proposal, as our managing director mentioned, is to have the 60c concession stamp available to all federal government concession cardholders. How that will work is people can come into any post office through the country. They will be able to then give us their name and some identification details and show us their concession card number. What that will actually allow them to do is to set up this concession account. The My Post concession account will give them access to an annual limit of 50 concession card stamps each year. Importantly, we will be sending them out a kit with all of the details of the other things that will actually enable. When people apply for the My Post account, they will also be given five postage stamps. So that will actually be in the welcome kit. When they get the welcome kit, we will also give them the ability to access a free digital mailbox account. That is all bundled up as part of the offer.

Senator PRATT: Can you tell me how you judged 50 to be the right number in terms of the number of mail items that someone might need to post in a year?

Mr Fahour: With regard to your question, we put in an application with the ACCC. As part of our ACCC application, we gave some statistics on the average number of stamps that are bought by citizens. We have worked out that it is approximately between 30 to 40 per annum, but it is more likely to be in the 30 range per annum—30 stamps in a year. That is how we worked out that if the stamp price were to go up 10c, the average Australian would spend $3 a year more. For the 5.7 million concession cardholders, we wanted to not have any price increase at all. It is hard enough if you are on a concession card. Even $3 makes a big difference to some people. We said that if they are buying on average 30, let us be really on the safe side and allocate up to 50 that they could buy a year. I hope they use all 50, by the way. What we also decided, as part of the gift of looking after these people, was to give five free stamps, which we figured would be a nice way to welcome them.

Senator PRATT: Thirty is the average. But some senior citizens will not use the Internet as often for their banking et cetera. You are confident that 50 is enough of a threshold for them?

Mr Fahour: Yes. We are very confident that it is going to more than adequately cover the great majority. I might say, by the way, that if you buy more than 50 and you do buy some extra stamps, there is nothing wrong with paying 10c more because it is going to be for a good cause.

Senator PRATT: A good company. Five point seven million Australians will be eligible for this card. Do you know what take-up rate you will be expecting?

Mr Fahour: We have not done some modelling. I really hope that all 5.7 million Australians collect their entitlements, which as a bare minimum gets them five free stamps. Why would you not just sign up for it if you got five free stamps? It does not oblige you to do anything. It gives you a card. I would hope that all the 5.7 million people who qualify come and collect their five free stamps and get their starter kit and get their free digital mailbox and an Australia Post My Post card. How terrific is that? There is nothing for free these days. This one is.

Senator PRATT: Are you going to need to change the law on this question because the Australian Postal Corporation Act requires Australia Post to make the letter service available at a single uniform rate of postage for carriage within Australia by ordinary post of letters that are standard postal articles. How does a 60c versus a 70c rate work?

Mr Fahour: It is very simple. The stamp you are talking about is a 70c stamp. What the law does not stop us from doing is offering people a discount.

Senator PRATT: Will Australia Post require LPOs and outlets to hold a minimum number of concession stamps? What would that number be?

Ms Corbett: There is no minimum required. We will be doing a channel file for our licensees. It will just be a stamp like any other sort of stamp. Different licensees set their own minimum order requirements. That is really based on customer demand.

Senator PRATT: There are some line items where you do insist a certain amount of stock is carried, as I understand it. But this would not be one of them?

Ms Corbett: I am happy to take on notice and get you back the specifics. As I said, different licensees are all different sizes and have different requirements to be in place. But I am happy to take that on notice.

Senator PRATT: Your submission to this committee's inquiry separate to estimates today is that licensed post offices will receive an additional $25 million a year from the 10-cent increase to the basic postage rate. Given the concession rate is being introduced for roughly a quarter of the population, will LPOs receive $25 million or 75 per cent of that figure? Is this increase automatic, or will it take some time to flow through? Will this payment increase again in 2017, when the concession rate is removed?

Mr Fahour: If you are asking me whether the licensed post offices will be disadvantaged to the tune of the 60c stamps versus the 70c stamp, the answer is no.

Senator PRATT: So when you said to the inquiry that LPOs will receive an additional $25 million a year, that is based on the 75 per cent of Australians that will pay the increase and recognises that 25 per cent are eligible for the discount?

Mr Fahour: I am not sure why you are referring to the requirements. I said it in my opening statement.

Senator PRATT: Sorry?

Mr Fahour: In answer to your question.

CHAIR: Mr Fahour, I think she is questioning your figures because of the discounted stamp.

Senator PRATT: I just want to confirm that that discount rate has been taken into account in terms of that extra income to LPOs.

Mr Fahour: Yes, it has.

Senator PRATT: What does Australia Post forecast will be the impact on mail volume from an increase in the basic postage rate?

Mr Fahour: I am sorry?

Senator PRATT: Clearly, an increase to 70c will increase revenue. Will it, however, also have a slight impact on declining mail volumes?

Mr Fahour: Well, this was part of the whole ACCC inquiry as to the demand elasticity associated with that. I think I have been talking about this topic now for several estimates. The conclusion that we have come to is that the demand elasticity associated with price increases in the letters business today is fairly non-existent. In other words, the substitution from physical to digital is occurring at a maximum pace and is not really driven by the price movements that are occurring. I think this is part of the issue, which is that the price of digital alternatives is so much lower that—

Senator PRATT: You said the ACCC has looked at the increase in the basic postage rate and said it will not accelerate decline, because that decline is happening anyway. Therefore, you are or are not concerned about the decrease in mail volume and the impact that has had on Australia Post staffing and LPO revenue?

Mr Fahour: I am not sure I ever said that. As a matter of fact, I think you are being a little bit less than fair. I have said the exact opposite of what you have just claimed.

Senator PRATT: No, I said which is it that you want to assert?

Mr Fahour: I care deeply about the impact of the declining letters business and I care about it a lot for what it is doing to our employees and what it is doing to the community post offices.

Senator PRATT: I asked what the impact was, not whether you cared about it. I am sure you do care.

Mr Fahour: The impact is serious.

Senator PRATT: I note you have recently reorganised mail sorting arrangements such that it will result in the loss of next-day delivery in some areas that had previously had next-day delivery. Are there other plans you have on foot to reduce service in some areas that previously had a more consistent service?

Mr Fahour: As the senator knows and as we discussed last year at the last Senate estimates—my memory is still good enough to remember the last couple—we had a long conversation about this.

Senator PRATT: We did.

Mr Fahour: The questions must not have been answered to your satisfaction back then, so I will have another go at it right now.

Senator PRATT: No, it is important that there is continual community monitoring of this particular issue, because we are universally concerned about declining service standards. I appreciate that I am repeating these questions, but estimates is an important forum to put on record the problems that you are confronting.

Mr Fahour: Okay. As I said last year and I will come back to again, there are no declining services. I take exception to that. I think the real issue we are debating right now is: given the consistency of the excellent service the Australia Post workers deliver to the community and the excellent service standards that we have, how do we maintain that as this business is declining and has rapid amounts of losses to the tune of several hundreds of millions of dollars? For the first time in our corporatized history, the losses are so large that they have overwhelmed the parcels profits. I know I sound like a broken record, and the chair knows this as well, because at every Senate estimates he came to over the last four years I have been here I have been saying, 'In three years time, this is what's going to happen.' 'In two years time, this is what's going to happen.' 'In one year's time'—

Senator PRATT: You have placed those things on record very clearly.

Mr Fahour: Therefore, to answer your question—

CHAIR: Senator Pratt, do you have many questions left over? Senator Whish-Wilson requires five minutes of questions because he has to leave in 10 or 15 minutes. Would you be offended if I went from you to Senator Whish-Wilson and back to you?

Senator PRATT: I would like to finish this question. If I can finish the next three questions—

CHAIR: I just want to point out that you have about 30 minutes left between you and Senator Cameron.

Senator PRATT: Okay. Mr Fahour, to be clear: you have recently reorganised mail and sorting arrangements that are resulting in the loss of next-day delivery. I acknowledge that, yes, there are pressures on the service for exactly the reasons you have outlined. Are you therefore saying that there will be new areas that are likely to experience a loss of next-day delivery?

Mr Fahour: My answer, to finish off where I was before, is that we do not have declining services versus the standards. What Australia Post is planning to do—

Senator PRATT: I know it is all within the standard.

Mr Fahour: is meet its obligations and service standards. Where we are relatively overservicing to a hugely loss-making business, we will ensure that we devote the resources to meeting the standards and not exceeding the standards where we find that we are losing so much money and failing in our obligations to make a commercial rate of return. Therefore, what I take exception to is people saying 'the declining standards'. The standards are not declining. What we are doing is trying to meet the standards.

Senator PRATT: I did not say standard. If I used 'standard', I would have been wrong. It is quality, and clearly you are using quality above the standard at the moment.

Mr Fahour: Thank you.

Senator PRATT: In other words, I think the answer is, yes, there are new areas that might result in a loss of next-day delivery services.

Mr Fahour: There is nothing planned that has not been announced.

Senator PRATT: Okay. Are you developing any plans along those lines?

Mr Fahour: We are not developing any plans to reduce our services to the standards that we have. What we are doing is trying to meet the standards that are in place. We have made announcements where we are overservicing to change that to meet the service.

Senator PRATT: I find what you said slightly contradictory. You are planning to meet the service. What I want to know is if people can expect the same service that they have been receiving or if you are planning to change that level of service.

Mr Fahour: We have no plans that we have not announced to change our service standards and to meet those service standards.

Senator PRATT: So there are no new areas that could be looking at the loss of next-day delivery currently?

Mr Fahour: I am not aware of us planning any changes that do not meet the standards that are in place.

Senator PRATT: I am not talking about standards. I am talking about next-day delivery, which is that higher-than-expected standard. It is a loss of the current quality of serve. Anything that is higher may go, in other words.

Mr Fahour: No. Anything that is higher is what is there for a reason. I will give you an example. We cannot just make generalisations, because there are some areas in our postage area where we will go above the standard. The best example of that is the seven-days-a-week service that we provide leading into Christmas. There are places where we will go above the standard. It will occur.

Senator PRATT: And places where it might decline. Thank you.

Senator CAMERON: I may not be too long. Mr Fahour, I will not say thanks for your answer to my question on notice. It certainly was not one of our more loquacious responses that you are well known for! But let's see what we can do with it.

Mr Fahour: I am sorry that it didn't meet that infomercial standard that I am accustomed to providing!

Senator CAMERON: Your brevity was commendable. Have you met with the Commission of Audit since the last estimates hearings?

Mr Fahour: I cannot remember what the date was, but I did mention to the Senate estimates meeting that I was going to meet with them. The answer is no. I am going to develop this new brevity!

Senator CAMERON: So you put your submission in but have not met with the Commission of Audit. Okay. Have you had any discussions with Minister Turnbull, Minister Payne or any adviser or staff member in relation to your submission?

Mr Fahour: We have definitely spoken with our shareholder ministers around our submission.

Senator CAMERON: Who are your shareholder ministers again?

Mr Fahour: Minister Turnbull and his office and Minister Cormann's office. They are aware of our submission to the commission.

Senator CAMERON: Do you provide details of who you met with, when you met with them and who instigated the meetings?

Mr Fahour: Can I take that on notice so we can respond to that?

Senator CAMERON: Of course. Have you received any assistance from either of your shareholder ministers' offices or the shareholder ministers themselves to develop your submission?

Mr Fahour: No, not that I am aware of.

Senator CAMERON: You said on 19 November at the last estimates that where there is a logical bit where we are good at something, and relevant, we will undertake it. You also said that you are not trying to do case management, and that that was not relevant to you. Do remember that?

Mr Fahour: I do not remember the second half of your point but I do remember the first half of your point where I said—

Senator CAMERON: Let me refresh your memory. *Hansard* quotes you as saying:

I think year after year we have met those service standards. There are some things that are not relevant where there is some case management—real issues.

That is the *Hansard*.

Mr Fahour: That is the last word there. The point remains that we do not want to undertake activities in the postal office that are not relevant to what we are good at.

Senator CAMERON: You are good at face to face, are you?

Mr Fahour: We are good at high-volume transactions.

Senator CAMERON: The focus is high-volume transactions not face-to-face dealing, is it?

Mr Fahour: No, we can do face-to-face dealings but what I think you will see in a post office, as you well know and I think I the whole Senate knows, is that we can do a range of services from things like passports, driver's licence, taxation file numbers, identity checks, financial services.

Senator CAMERON: You are on the record. I will move to this issue of face to face because, if you start to do DHS transactions, then that will obviously mean you are face to face with DHS recipients. I am not going to be smart about this but I have had a definition of the face-to-face functions from the secretary of the department, Ms Campbell. I want to put to you what face-to-face functions are and what you can do and what you do not think you can do. The DHS define their day-to-day functions in the face-to-face environment as to assist customers by providing services across a range of payments, programs and services. Do think you could do that?

Mr Fahour: As I mentioned to you last time, and I will state it, our submission to the Commission of Audit was in confidence.

Senator CAMERON: I am not asking you about your submission. I am not asking you about that. I am asking about your general position on providing face-to-face services. You said last time that you could do this across a range of government services.

Mr Fahour: 'Relevant' was the word that I used. Relevant services. Relevant to Australia Post. There are some things we are not equipped to do and there are some things that we are equipped to do.

Senator CAMERON: Let us come back to this issue of whether Australia Post in its face-to-face dealings with customers can do these things. Would you be able to assist customers by providing services across a range of payments, programs and services?

Mr Fahour: I have found exactly what I said in the Senate submission to you in answer to your question. It says here, if you do not mind, I could just read it. I said:

We know what we are capable of doing at the post office and we know what we are not capable of doing at the post office over the counter. I can assure you we will only be undertaking items in our post offices that make sense.

Without getting into a long list of in-out, because I have no intention of entering into that conversation, what I can say to you, Senator, to put your mind at ease—

Senator CAMERON: I have got a different intention, quite frankly. So, your intention is what I have to put up with, is it? Is that what you are telling me?

Mr Fahour: I am happy to answer any question that I can. Please go ahead.

Senator CAMERON: I thought you would. Would you be able to actively assist customers by providing services across the range of payments, programs and services.

Mr Fahour: I am not in a position to rule things in or out of the Commission of Audit but I am prepared to say to you that there are a range of services that we are able and capable of doing very well in the post office.

Senator CAMERON: Have you had a look at the range of payments, programs and services that DHS provide?

Mr Fahour: We have looked at a range of government services that we could get from publicly available information and we have looked at some of these things and said: 'What can we do in the post office that makes sense'.

Senator CAMERON: I am talking about DHS.

Mr Fahour: I heard you very clearly and I am responding. We have looked at a range of government services that are available and we have tried to ascertain which ones of these we could do and which of these make no sense for us to even consider. Of the ones that we could do, we wanted to make sure that we put the best foot forward to say that a great institution like a Australia Post is in a position to undertake them—like it has undertaken, historically, things like passport applications—and that we could do them really well through our licenced post office and corporate post office network.

Senator CAMERON: In relation to DHS, how about payments, programs and services? Have you given consideration—I am not asking what you have in your submission—to the issue of payments, programs and services?

Mr Fahour: We have definitely looked at those relevant services that match with the kinds of activities that we do, and have put forward ideas and thoughts for consideration to ask: how can we, on the one hand, continue to service the community and, on the other hand, deliver things in a different way to the way they are being delivered today?

Senator CAMERON: Have you had a look at whether you could promote, demonstrate and assist customers to use DHS's digital and phone self-managed services?

Mr Fahour: We have been in really good conversations with DHS about how we can work together in digital delivery of services. I think there is excellent progress being made by the department and ourselves to work on some digital services.

Senator CAMERON: On notice, can you provide me with details of who you have met with from the department in relation to this issue, when you met with them, and who instigated the discussions.

Mr Fahour: Are you talking about the digital mailbox opportunity?

Senator CAMERON: No, I thought you were talking about DHS.

Mr Fahour: I am sorry. Could we just make sure that we are answering—

Senator CAMERON: My question was: could you assist DHS recipients to use the department's digital and phone self-managed services?

Mr Fahour: I am sorry; I was answering a different question to what you are asking, so I apologise for that.

Senator CAMERON: I understand it is hard because your mindset is in Australia Post and my mindset is in DHS, and we will try to work out where you are headed.

Mr Fahour: I have not corresponded on that particular aspect of what you are talking about. I have personally corresponded with the Department of Human Services. I have this on the record because we made a public announcement in October last year. We have made two or three public announcements on this. The Department of Human Services, the Australian Taxation Office and Australia Post have been consulting and working with each other on the digital mailbox, to deliver items through the Australia Post digital mailbox. We have made public announcements on this and we have been working very diligently to bring on stream the Department of Human Services into our digital mailbox.

Senator CAMERON: That is fine.

Mr Fahour: That is where that interaction took place.

Senator CAMERON: I come back to my question. Would you be able to assist DHS customers to use the department's digital and phone self-managed services?

Mr Fahour: I do not know. I do not even know what it is.

Senator CAMERON: Would you—by 'you' I mean people in your post offices—be able to advise customers on legislation, policy procedures, payments and services administered by the department?

Mr Fahour: I am not certain of the answer to your question.

Senator CAMERON: Can you take that on notice to make certain?

Mr Fahour: I can.

Senator CAMERON: Would you be able to assess customers' needs, requirements, entitlements and obligations?

Mr Fahour: Again, I am happy to take that on notice if you wish.

Senator CAMERON: Would you be able to provide and manage intensive services. You have already said that you do not want to go there; is that correct?

Mr Fahour: What I have said is that we know what we are good at and we know what we are not good at.

Senator CAMERON: So, if a customer came in with a complex need, that is not where you want Australia Post to go, is it?

Mr Fahour: Australian Post deals with lots of complex needs that are relevant to its Postal Services Act.

Senator CAMERON: Yes.

Mr Fahour: Therefore, for the things that are relevant, as I keep saying, we will definitely pursue opportunities to provide community services.

Senator CAMERON: Maybe you would take on notice what things you think are relevant. 'Relevant' is a very broad term so maybe you could take on notice what 'relevant' is. Some of these more focused issues include developing individual support plans, assisting people to acquire vocational skills, and maximising training and employment opportunities. I assume from your previous answer that these are not areas that you would want to engage in.

Mr Fahour: Senator, as you know now, I will never assume anything for you. But I am prepared to answer the question by saying that we will absolutely take those relevant services that Australia post will add value to.

Senator CAMERON: Do you see it as relevant for Australia Post to deal with individual support plans, assess people in acquired vocational skills and maximise training and employment opportunities? Does that fall within your definition of relevance?

Mr Fahour: I think you know that we will look at anything that makes sense for Australia Post to help us survive the fact that we are having fewer and fewer letters and that we are looking for new services.

Senator CAMERON: Do those issues make sense to you in the context of your response?

Mr Fahour: I do not want to get into what I feel and think. I think there are some practical issues here that you would know we are dealing with, and we will undertake what is relevant and makes sense.

Senator CAMERON: I am getting different feedback now than we did last time, because you did the logical-bit argument last time. You said:

There are some things that are not relevant where there is some case management …

Have you changed your position on that now?

Mr Fahour: It must be an early onset of Alzheimer's! I will find where those last little few words—

Senator CAMERON: They appear on page 22, *Hansard*, Tuesday 19 November. That is why I am a bit confused, because I thought it was quite clear last time; now it is not so clear.

Mr Fahour: You probably got a little bit more out of me than I thought I would have said, but that it is still correct. There are some things that are not relevant. I stick by that statement.

Senator CAMERON: That is really helpful! Would your service people in the post office be able to refer customers of DHS to relevant government and community services?

Mr Fahour: I think you will find that if you go into a post office today, where our post office does not have the answer to the need of the customer who has walked in, there are a range of services which they will refer them to. I think you will find our staff incredibly helpful.

Senator CAMERON: People can try to be helpful but not be very efficient in dealing with it. People can try to be helpful but not have the understanding.

Mr Fahour: I am sure that is the case, but I am sure you also know that Australia Post prides itself on being able to service the community in places where very few institutions are left. Particularly in regional and rural Australia there are not many options available to the community, and Australia Post tends to be there to assist across a range of services.

Senator CAMERON: Would your face-to-face service people be able to liaise with community service providers and other government agencies to make referrals and assist with brokering solutions for people with complex needs? Is that an option for you?

Mr Fahour: As I think I said, we are very committed to identifying relevant services. There are some things that we are good at and some things we are not so good at, and we are not going to undertake the things that are not relevant.

Senator CAMERON: So you are not good at brokering solutions in that specialised area, I would assume.

Mr Fahour: Right now, we do not do very many of the things that you are intimating. It does not mean that we are not good at it; it just means that, right now, we are trying to identify what are the key opportunities of things that we can do that make sense. As you know, there are some things that Australia Post is excellent at—according to statements that you yourself have made—and there are some things that are relevant. I would like to believe that those things can be looked at by Australia Post.

Senator CAMERON: There would as well be some things that Australia Post, like every other business, are patchy on in terms of service delivery. That is the reality, isn't it?

Mr Fahour: I think the reality is that, among world postal operators, Australia Post is considered one of the best. We have a terrific network, and as the letter business is in decline we need to replace it with something, otherwise it is all going to disappear in front of our eyes.

Senator CAMERON: For someone who came to you for a DHS service, would you be in a position to facilitate service recovery in line with relevant service standards for customer feedback and complaints and be able to escalate any issue?

Mr Fahour: As I said to your previous questions, there are some things that we are terrific at and some things that are not relevant, and we will pursue those opportunities where we can add value.

Senator CAMERON: In terms of your management systems in these post offices, many of these post offices are franchises, are they not?

Mr Fahour: No, the great majority of our network are licenced post offices.

Senator CAMERON: And there are some franchises?

Mr Fahour: Yes, there are 29 of those.

Senator CAMERON: If you were carrying out DHS functions that required service standards consistent with DHS standards, how would you manage those service standards across the different types of post office? There are different sizes and different locations.

Mr Fahour: Australia Post has 4,400-plus post offices. The vast majority of these are licenced post offices—approximately just under 3,000—and the rest are a combination of different types of post offices, with corporately owned ones and some community postal agencies. We offer a range of services today—identity services, financial services, communication services, merchandise et cetera—and we operate them across a bunch of different models that we have. I think we do it exceptionally well, from the very complex and highly important ones through to the very simple transactions, and they are conducted mostly by people who own their business who are highly competent and are absolutely well respected and regarded in their community.

Senator CAMERON: Some of them are cranky buggers that you would not want to go to too often!

Mr Fahour: There are cranky buggers everywhere, even around here.

Senator Fifield: I would not have thought that is a way for an opposition senator to win friends and influence people, Senator Cameron!

Senator CAMERON: You paint this picture of everything as perfect, and it is not perfect.

Mr Fahour: With the glasses I see through, I see these terrific people who are bastions of society—

Senator CAMERON: Your glasses are rose coloured, that is the problem.

Mr Fahour: I will take that as a compliment, Senator. I choose to see life as half full, not half empty.

Senator CAMERON: I am not complaining that you are defending your services, but sometimes you have got to be a bit more detached, analytical and critically focused.

CHAIR: Senator Cameron, is this a personality judgement or do you have further questions?

Senator CAMERON: It is, actually!

CHAIR: It sounds like it.

Senator CAMERON: I will finish now.

Senator Fifield: I think Senator Cameron has projected you with what he may do in post-political life.

Senator O'SULLIVAN: Chair, can I indulge and ask that the record reflect that when you were rousing on us before, that was Senator Boswell talking. I was simply listening.

CHAIR: I heard him.

Senator O'SULLIVAN: Welcome, Mr Fahour. In our dealings with you over the last little bit, we have found great progress in resolving some of the issues that are of a common interest to your shareholders and your LPOs. Could you advise the committee of the disparity by percentage between the increases in service payments to licenced post offices where those payments were tied to the base postal rate—the BPR—as opposed to a payment tied to another index, such as the CPI, since the introduction of the licenced post office agreements in 1993?

Mr Fahour: Chair, and Senator, thank you for your opening remarks. It has been terrific actually since the Senate inquiry in December where we have had a real opportunity to take pause and understand that the problems that Australia Post are experiencing are magnified in our own retail networks. The reality is that you and Senator Boswell and Senator Xenophon have highlighted and really brought to the fore this very serious issue that not only is Australia Post suffering but actually our very important retail network is also equally hurting. We put forward to the Senate inquiry—

CHAIR: Mr Fahour, sorry for interrupting. The question was can you relate the basic postage rate in the last 20 years to what it is now, compared to inflation.

Mr Fahour: In that inquiry I was just referring to, what we put forward was that the rate of increase to the payments has fallen short of inflation. There is no question that the payments that Australia Post has received and the payments we have paid have not kept up with inflation.

CHAIR: So the figures were roughly 75 per cent inflation in the last 20 years compared to about 35 per cent on the basic postage rate?

Mr Fahour: Yes, you are right.

CHAIR: So about half—the postage rate has gone up half over the last 20 years compared to inflation, about half the inflation rate.

Mr Fahour: We put into the Senate inquiry that in order to match inflation the basic postage rate would have needed to rise 20c to equal the same number and that this postage rate, by going up by 10, gets you halfway.

Senator O'SULLIVAN: I know you have done modelling. Can you inform the committee as to what the gross quantum of increased receipts to Australia Post will be from an increase of the BPR by the 10c? Also, what percentage, either as a figure or a percentage of whole, do you intend to use to pass through to the licensed post offices?

Mr Fahour: So, we worked out what the increase is and how much that would reduce the losses that we have, Senator O'Sullivan, and what we have estimated is that the proportion that it goes up by gets automatically all passed on to the retail network, but it also is used to pay for all of the other costs that we have. What we have estimated is, as outlined in the ACCC submission, I will give you the exact number, on page 2 of the ACCC detailed report it says that the proposed price change will generate $95 million in 2014-15, and it also goes on to say that the loss in 2014-15 for the domestic reserve letter service business is $313 million. This was in the ACCC detailed report, which in the public domain, and from that public information what you can see is that the loss is going to be a little bit less but still substantial.

Senator O'SULLIVAN: I accept that, but how much of that prospective revenue of $95 million will pass through to the licensed post offices to offset this disparity that has occurred with respect to the CPI increases?

Mr Fahour: We have already communicated, as you know, $25 million is the immediate benefit of the price rise, which is the equivalent of $8,500 per annum, on average, per LPO.

CHAIR: That is $25 million a year?

Mr Fahour: Per year. So each year for the next couple of years it keeps adding up: 25, 25, 25.

Senator O'SULLIVAN: Sure. Let us use base plate mathematics. So would you agree that will have the effect of, to use the term catch-up, that will have the effect of catching up some of the payments to LPOs to about half of what they might have been—I'm talking about the disparity—had they been subject to CPI?

Mr Fahour: It will definitely, as my own calculations show, halve the gap to inflation. But that is with one proviso, that there are $500 million of cumulative losses thus far that Australia Post has had the taxpayer pay for. So the taxpayer has collected $500 million retrospectively of losses which have not been passed on to the LPOs, and that is the challenge we have.

Senator O'SULLIVAN: Perhaps I should bring it back the heart of my line of questioning. Would it be fair to say that the relationship between Australia Post and these privately owned licensed post offices since 1993 is somewhat of a unique relationship, in the sense that it is not a typical free-market corporate relationship out there where if you are conducting a small business, you can choose which principal you might want to deal with and you can move on if circumstances do not suit you. So it is a captive relationship. Is that a fair comment?

Mr Fahour: I am not sure completely it is captive, only to the extent that we as Australia Post are the sole player in Australia, we are one company, one industry —

Senator O'SULLIVAN: That is the point I am making.

Mr Fahour: Why I am not saying completely—I am not trying to be cheeky about the answer—is because we are very clear that we do not have them as the only people we will talk to.

Senator O'SULLIVAN: No, that is not where I am going. I think I can solve it with another question. If a 20c increase in the BPR would have solved the ills in so far as the LPOs are concerned, because it would seem nothing is going to solve your ills in the short term as Australia Post, why didn't you apply—I know the answer but I am going to ask you anyway—why didn't you apply for a 20c increase in the BPR?

Mr Fahour: We have 11 million households in this country, we have businesses, we have government—we have lots of customers. There is a balance that you need to have between society's ability and affordability and over what time period you can do so much. Over the last 22 years, when mail volume was going up, particularly the licensed post offices, even though their price was not being the same as inflation, the volume was going up. So even though your rate was not going up as much as inflation, the amount of business you had was increasing because letter volume was going up. What happened in 2008 with the acceleration of smartphones and technology is that the volume went down.

Senator O'SULLIVAN: No, I accept that. Let me ask you this question, then. Given that as at today these small captive businesses, in so far as some of their payments are concerned, are behind the CPI, is it fair to say that in the last 20 years someone has failed? You may want to apportion blame. You may want to blame respective governments, including of own persuasion, over time. You might want to suggest that the administration of Australia Post in certain parameters, but someone has failed. I mean, other businesses and industries out there have, to the best of their ability, kept up with CPI increases to keep their businesses profitable.

Mr Fahour: I did not get to finish the last part of my last answer, which is very important as it might help. Why I was picking on 2008 is because if you took the rate of increase in the stamp price of the last five years since 2008, when the volume has gone the other way, it has kept up with inflation.

Senator O'SULLIVAN: I accept that.

Mr Fahour: So what I am trying to say is that from the period 1991 or 1992 or 1993, whichever was the number you used, Senator, to the period 2008, that is when the rate of increase in BPR was at its lowest and inflation was higher. The compensating factor was that volume was rising. What happened in 2008—and if you look at the last five years—is that the stamp price did keep up with inflation on average and the compensation was keeping up with it. The issue was not the spread between the BPR and inflation; the issue was declining volume and declining foot traffic.

Senator O'SULLIVAN: Before we get to that, where the floor price was flawed in 2008 you can increase it in line with anything you want, but wouldn't you agree it remains flawed in 2013? If the floor price was behind in terms of its relationship with CPI increases in 2008, it is always less than it ought to be had inflation been applied to these payments.

Mr Fahour: Yes, in a mathematical sense. You are giving me two equations whereas revenue has three—it is volume. When the ACCC assess price submissions it factors in all of those and would not have allowed the prices—we were not here—because they would have assumed that the productivity benefit of higher volume would have offset the difference. That is what productivity does.

Senator O'SULLIVAN: Would you agree that they would have been wrong when regarding the type of mail volume that was increasing? It takes two seconds to deal with a 20 gram letter and it takes a bit longer to carry a bar fridge up out of the courier van and store it in the storeroom. They would have been wrong.

Mr Fahour: I will not comment on the past but I will say this: the point that you are making is absolutely correct, which is that there is not enough income coming in in total for the rising costs, not just of inflation but of rising work, because what is happening to the post offices and to Australia Post is that the rate of decline in volume is so large that you need these price increases to offset it. The ACCC said in its report that it is not enough. It says—in their own words—this price increase is not enough for Australia Post to break even.

Senator BOSWELL: Can I interrupt for one second because I want to face a bit of reality. It is immaterial what the volumes are. The point of the matter is that you have got 3,000 businesses out there, working their guts out. They are busy but they are not getting enough remuneration to cover their expenses. The question I put to you directly is: what are you going to do about it? I could give you chapter and verse: 'I have worked my guts out. The guy I employ is getting $30 an hour or $25 an hour. I haven't drawn a salary. I haven't paid my superannuation.' There are a litany of complaints out there. It is immaterial whether the volumes went up or the volumes went down. The problem is that you have 3,000 people out there trying to make a quid, putting their own money into it, getting their wives to go back to teaching or to nursing, and they are not covering their expenses. And they have been doing it for I do not know how many years, but they are coming to the end of the rope where they cannot keep doing it. They have got to make a decision: 'Do I just shut the doors and walk away, or is help coming over the hill?' Well, the help is coming over the hill, but an 8,500 increase to my way mind is not going to get these people out of trouble.

Senator O'SULLIVAN: In fairness to Mr Fahour—and I do not speak for Senator Boswell—where I am going with this is, if we were able—magic wand stuff here—to bring those LPO payments that are tied to the BPR in line with inflation, vis-a-vis 1993 to today, would we all agree that we are at the commercial point where it does not matter whether they are making money anymore, the reality exists? They have kept up. That is why the CPI is there.

Mr Fahour: Of course, if we could pay more money and it came out of this magical bucket, everybody would be better off.

Senator O'SULLIVAN: Correct. But the point I am trying to make in relation to these LPOs is that this captive relationship with Australia Post is different. These people are discharging your, and you are discharging our, community service obligations—it is as simple as that. These are obligations. I say to you that you either have to dispose of the obligations or they need to be paid appropriately for the services they provide—they are not there to subsidise you or the nation. That is my position. Would you care to comment on that.

Mr Fahour: Senator, obviously that is your comment and you are entitled to say whatever you wish to say. I would say in response to your comment, and to Senator Boswell's comment, that in my opinion the dramatic action that has been taken over the last 10 weeks is quite remarkable.

Senator O'SULLIVAN: Hear, hear.

Mr Fahour: We brought forth $35 million—

Senator O'SULLIVAN: No-one is challenging that.

Mr Fahour: No, I am just saying: it is quite remarkable what people with good intention can achieve in a short term. Let me just make this comment: $35 million, a $25 million increase, the new post office box scanning fee—and there are a range of other things that we are also going to do into the future. But I said something in my opening statement that actually agrees with Senator Boswell's statement. What I said—and this is quite important—was that this will provide immediate short-term relief but is not the answer to the long-term vexing issue: if we want this network to continue, something has to give here. If we want these people to do all of these things—and I have just said, for the first time since corporatised history, we are unlikely to even pay a dividend in the future. Where is it going to come from?

Senator O'SULLIVAN: Sorry, I don't know the answer. But what I am saying to you—sorry, Chair, I know that I need to phrase these as questions. Perhaps the point can be made by asking you a historical question. Do you believe that bringing the payments to licenced post offices in line with inflation should have occurred prior to the Commonwealth accepting a dividend off Australia Post? It is hypothetical but it is relevant.

Mr Fahour: I am sorry, I cannot respond to that question.

CHAIR: You are seeking an opinion, Senator O'Sullivan. A witness does not have to give an opinion.

Senator O'SULLIVAN: Yes, I am sorry—I suppose I was going to the fact it was a profit issued to dividends that was not a legitimate profit.

Senator BOSWELL: Let me just come in here—I know Senator Xenophon wants to have a go. We are sitting here, and I think there has been an immense amount of goodwill between the Senate and yourselves; everyone is trying. You have put forward a number of issues that will give relief and you have said in your own words it is short term. With due respect to you and all the efforts you have put into it, to the 3,000 people who are listening to this or tuned to the wireless: they don't want to know they are going to have short-term remedy; they want to know there is a future. They want to know that in five years time they are not going to be sending their wives to work; they are not going to be borrowing money off their kids; they are not going to be borrowing against their parents' home. Surely it is within our capacity. We have a service obligation, which is a government service obligation that you fulfil. We cannot ask these people to work for nothing out there and cross-subsidise that service obligation—they have to be paid. We cannot just walk away from this.

CHAIR: So you question is, Senator Boswell?

Senator BOSWELL: How do you respond to that and what is the answer to it? Does it go up to 20 per cent?

CHAIR: Senator Boswell is clearly asking: what is the long-term viability? We have had some good assistance, and we understand it is very appreciated, but what is the long-term plan to make sure these people can go on making a living?

Mr Fahour: Senator, as you know there was this LPO inquiry, which you initiated, and we are bringing it to a conclusion. I have had an in camera session with a number of the people around the table where I have reflected on some of these points. The point that I really want to raise overall is to say: we are committed to the viability of the network. In addition to the LPOs there are 30,000 people who work for Australia Post who are also deeply concerned about the serious position in which the global postal industry finds itself. I strongly believe that Australia Post has a very exciting future, but it requires us to work through very carefully the challenges that are in front of us in the short term by not tilting the boat too much in any one direction. There are people on every side who would like to be fed, and the total volume of money available is shrinking. If Australia Post is losing money overall then the federal government is not taking dividends, and therefore taking money away from these people. It is something that we take incredibly seriously. Tilting it too much in any one direction will cause us further problems rather than actually solve the long-term problem.

Senator XENOPHON: Mr Fahour, further to the line of questioning from Senators O'Sullivan and Boswell, is it fair to say that at the core of Australia Post's viability is the massive network you have of licensed post offices. That is a key part of the viability of Australia Post—they need to be viable for the network to be viable.

Mr Fahour: Absolutely right. The core asset that we have is the retail network of 4,400 post offices—and that is the heart of our strength and our solution.

Senator XENOPHON: Just remind me: how many are now LPOs, licensed post offices?

Mr Fahour: Just under 3,000.

Senator XENOPHON: So about 70 per cent of the network.

Mr Fahour: Yes, two-thirds.

Senator XENOPHON: And you have announced some changes to phase out franchisees. There is only a relatively small number. Is that right?

Mr Fahour: Absolutely. It is remarkable. There was an article in a newspaper today and it took 15 paragraphs to get to the one answer right at the end, which was that 29 franchises will be converted to licenced post offices—or something like that. That is terrific for them—they are rapt, because franchises only have a 10-year term and then it is finished. The licensed post office is forever. So what we do is we keep them in business without having their businesses terminated at the end of the term.

Senator XENOPHON: And it is an integral part of Australia Post's success to have those licensed post offices viable and working well because the alternative is that Australia Post would have to step into the breach with respect to those post offices. In other words, if they were corporate post offices there would be different cost structures involved and the economics of that could be problematic if we are talking about smaller communities.

Mr Fahour: If Australia Post were to go out of business it would be bad for the licensed post office; if the licensed post offices go out of business it would be bad for Australia Post.

Senator XENOPHON: It is a genuinely symbiotic relationship.

Mr Fahour: We need each other.

Senator XENOPHON: Again, you cannot comment on policy but, with respect to the line of questioning from Senators Boswell and O'Sullivan, in terms of a business model with diversification offering other services, given the role that Australia Post has—which has expanded over the years, with passports et cetera; and there has been some speculation, which I understand you may not be able to comment on, in relation to providing Centrelink services—are you confident that there is scope for LPOs and post offices generally to provide services to the community in addition to their core activities?

Mr Fahour: Absolutely, Senator Xenophon. As I was trying to say to Senator Cameron earlier, there is a range of relevant services that we could do more of, because our post offices have the capacity to handle a range of communications, identity, financial services that are relevant to what we do. And I believe this is a very big opportunity for the network. As I put in our retail submission, we identified that today, virtually from zero, we pay $90 million of trusted services revenues that did not exist back then, and these have all been built through this post office network. What we are saying is: if you look into the future, not too far into the future but into the immediate future, there are immediate opportunities to grow that revenue profile to the post offices which will be significantly greater than just a price rise.

Senator XENOPHON: But the number of it is fair remuneration for those services, or adequate remuneration.

Mr Fahour: And they like those services, and they get paid well.

Senator XENOPHON: I have received a number of letters from licensees requesting installation of EPOS—electronic point of sale terminals—at their licensed post offices. Is the fee structure being reviewed in relation to that? The issue has been raised with me that some LPOs, particularly those in remote and regional locations, are keen to have the EPOS facilities because it does make life easier for them. Is that right? I do not know whether Ms Corbett wants to comment on that. This is not directed as a criticism, but there is an issue. Some people are saying, 'We have been waiting for the rollout of the EPOS facilities'. As I understand it, it is an advantage to those LPOs.

Mr Fahour: Absolutely, Senator Xenophon. The chair has also raised similar questions around 400 or so what we call manual post offices that are left in the system. I might add that over the last 10 years that number has been over 1,000, and we have been working away to reduce that number. It is down to 400.

CHAIR: Did you say the last 10 years?

Mr Fahour: Yes, 10 years ago it was over 1,000.

CHAIR: And it has taken 10 years to get it down to 400?

Mr Fahour: Yes. There was a big program done in the mid-2000s, which was excellent. Ms Corbett would just like to comment on this little trial we are doing.

Ms Corbett: Two things are happening. One, we have done a trial at the moment to look at how we can extend technology to these small outlets. It has been the cost of technology that has been the big inhibitor. We are currently in an evaluation phase now. One of the benefits of technology is that some of the pricing has come down both in hardware and also in some coms lines as well. We are literally in the middle of an evaluation phase where we would like to look at how we can try and lower a substantial number and be able to offer technology to those officers. Regarding some of the issues that senators have raised, giving some of these outlets technology, if we could, opens up access to a range of services. At a manual outlet you can only do basic postage. We are looking at doing that and we would hope that by the next Senate estimates we would be able to come back with some answers to those questions.

CHAIR: Surely that is an issue that you must focus on—

Ms Corbett: Absolutely.

CHAIR: because where are you in this day and age in business, no matter where you are, without electronic services and electronic facilities?

Ms Corbett: It is a big area.

CHAIR: It is a bit like going down Pitt Street in a horse and buggy, isn't it, and trying to keep off the traffic? You probably would. That is a bad analogy.

Ms Corbett: It is a balancing act for us. A lot of these communities are obviously very small and, from a commercial perspective on its own, there is not really the commercial viability there. Hence, we have been looking at doing a pilot, looking at the commercial viability and looking at how we can get the efficiency and get the cost of technology down. As I said, at the next estimates hopefully we will be able to provide some answers.

Senator BOSWELL: You have increased the postboxes, which are worth $25 million, you are increasing the cost of the stamp, which is going to be worth $8,500 per post office, and other things are increasing. What is the total increase of payments that will be made to LPOs? You have obviously worked this out.

CHAIR: Is that per year, Senator?

Senator BOSWELL: Yes.

Mr Fahour: Senator Boswell—

Senator O'SULLIVAN: No doubt you have been doing quite a deal of modelling, so we are able to define some of the quantums of the moment. Some, I imagine, are in the ether, but I am sure you have models that go from here to here. The question, I think, is: at the end of the day, when you have implemented all the things within your power, having regard to the restrictions, are you hoping that on average it will be worth X?

Mr Fahour: No. What we did not do is say, 'We would like X.' What we did is that we worked on the—

Senator O'SULLIVAN: No, I never said it was an objective, Mr Fahour.

Mr Fahour: It was an outcome.

Senator O'SULLIVAN: In your modelling, have you said, 'If it all goes okay and the wind's at our back, this should translate to XYZ'—and I know there are big post offices and little post offices; there are pink ones and red ones—'on average across all regions'?

Mr Fahour: Because of the complexity of the component parts, I would be delighted to take that on notice, but you would be aware that we have been working on certain things that we have already announced; certain things that, as long as the minister does not object, will come through on 1 April, which will be worth X; and the opportunity—

Senator XENOPHON: Make it 2 April. There is just something about 1 April!

Mr Fahour: It is 31 March, actually, to be correct.

CHAIR: Can I just interrupt. Time is getting short. Could you take that on notice? No doubt you will get the question put to you if the committee decides to call you—

Mr Fahour: Sure.

CHAIR: in a further, later, hearing stage of the Senate inquiry.

Mr Fahour: I really appreciate the word 'if'.

Senator XENOPHON: I am happy for a couple of these to be put on notice, except one that is specific for my home state. Again, the context of this is that we have come a long way since the last few months, when I think that people really wanted to work together and with goodwill. You may want to take this on notice. I was recently informed by a number of LPOs that they have had their credit limit reduced due to, apparently, a recent policy change whereby they say their credit limit is now being assessed on the number of EPOS terminals at the outlet. Perhaps on notice, could you advise whether this is the case; when licensees were informed of this policy change; and by what method they were notified. It is an issue of communication and also the intrinsic fairness of that.

Also, I have received some communication from constituents in relation to the closure of the Summertown general store, which had a post office or a post office outlet. They now have to travel to Uraidla, which is a couple of kilometres away in the Adelaide Hills. Can you just advise, again on notice, about the level of communication there was from Australia Post to that local community—

Mr Fahour: Yes, certainly.

Senator XENOPHON: because it is an issue that has impacted on that community and caused some real inconvenience. I think any other questions can wait until a further hearing of the inquiry.

Senator WHISH-WILSON: Mr Fahour, I only have a few quick questions. Just as a matter of interest, in relation to the discount card that you were talking about earlier for pensioners, are you collecting the details of these people onto a database? Is that one of the reasons that you are doing that?

Mr Fahour: How else do we check what rights they have? We collect the basic information so that, when they come in with their card, we can verify that this person is that person with this address, and therefore they have bought 25 and they have got 25 to go.

Senator WHISH-WILSON: You will also be requiring identification and other details—

Mr Fahour: Of course.

Senator WHISH-WILSON: so essentially you are setting up a good database with which you can cross-sell products to these people.

Mr Fahour: I am not certain that for this constituent it is—

Senator WHISH-WILSON: They are not high-income customers; there is no doubt about that.

Mr Fahour: These are people who are finding it hard to get by, and so we are going to look after these people. The most important thing is that I can assure you that we will be complying completely with all the privacy principles that exist.

Senator WHISH-WILSON: That was my next question—

Mr Fahour: Of course.

Senator WHISH-WILSON: because they might not be high income but they are probably not high—what is the right word for it?

Mr Fahour: You know Australia Post operates to a very high standard.

Senator WHISH-WILSON: Fantastic. I just want to ask you—and I apologise if someone has already asked about this, because I had to step out—about the parcels and prepaid satchels side of the business. Have you had any meetings or any correspondence with a company called Supply Chain and Logistics Australia? I do not even know if it is a company; it seems like it is a representative group for businesses.

Mr Fahour: No, not that I am aware of.

Senator WHISH-WILSON: Perhaps if I go through some of the information they sent me, you could tell me whether it is realistic and accurate. Essentially what they have done is they have written to me and said that prior to 2012 in a number of different—sorry did you want to add something to that?

Mr Fahour: No, Senator, I was just asking: who is this company? Who is this association? I have not heard of them.

Senator WHISH-WILSON: I can give you their details afterwards, if you like.

Mr Fahour: I will look them up.

Senator WHISH-WILSON: What they are saying is that prior to 2012—they look at the value chain of Australian businesses, so have an issue around price rises in the parcel side of the business, which they claim has been driven by Australia Post over the last two or three years—in a whole range of categories which they have sent me, that you were very competitive in terms of your price and the delivery of your product. But they are claiming that since 2009 to October 2013, across a range of products—500 grams, three kilos, five kilos—they have seen a rise of 60 per cent across these product ranges. Does that sound realistic to you?

Mr Fahour: I am not exactly sure of that, but I am happy off-line to get those. Let me just say this about our parcels business. Our parcels business is in non-regulated competitive business where we compete against a range of organisations.

Senator WHISH-WILSON: Very correct

Mr Fahour: Unlike the letters business we have competition, and the reality is that we are not required to submit to any particular regulatory body on this. We compete. If our prices are too high, in absolute terms, we lose business. And if I look at our financials and our market share and our revenue growth, we are winning a lot of business. One of the things that concerned me was that, in some categories, we might have been winning business for the wrong reason. We might have been too cheap! So what we have to make sure is that the price is correct for the services and the value that we create. We would like to think that, as we have grown market share and we have grown the business, that we are pretty competitive.

Senator WHISH-WILSON: Are your courier and prepaid satchels side of that business more expensive than your competitors, at the moment?

Mr Fahour: Prices change daily and weekly. What I would say to you is this: if this organisation felt that our price was too high, could you ask them whether they are still customers? If they are—

Senator WHISH-WILSON: They are saying they are, but they are saying it is causing financial stress—

Mr Fahour: But there are a lot of alternatives, right? Because I could go—

Senator WHISH-WILSON: This is the interesting point, Mr Fahour. They are saying that—for example, of the 500 gram market, couriers on average are 22.5 per cent cheaper; for the three-kilo market, they are 26 per cent cheaper; they are 38 per cent cheaper in the five-kilo market is; they are 47 per cent in the 22-kilo market; and they are on par for the 25-kilo market et cetera. So what they are saying is that your computer to your competitors your prices are so much higher.

Mr Fahour: And they have stayed with this. They are wonderful customers.

Senator WHISH-WILSON: I think they interested in whether that they are claiming that your competitors are also rising their prices because they can.

Mr Fahour: No, I don't think so. I think it is like comparing whether I want to drive a Holden or an Audi. And the reality is that they both get you from A to B but they offer different service propositions. Or do I buy something made in Australia or from somewhere else? I think the reality is that there are different prices for different products and services, and we have a competitive market. I would like to think that our prices are incredibly competitive, but we offer an incredible service proposition. I have no intention of offering—at a loss—this wonderful service network that we built and invested in. We have spent nearly $500 million investing in our capacity and our parcels network, and the taxpayer deserves to get a return on that investment.

Senator WHISH-WILSON: So do you do market share and analysis for these different types of products?

Mr Fahour: Yes, it is a competitive business.

Senator WHISH-WILSON: So you have not lost market share to couriers and these types of businesses?

Mr Fahour: Generally speaking, over the last period that you identified, our market share has been relatively stable.

Senator WHISH-WILSON: But the differentiation of the quality of your services to couriers, you offer the same thing as them—like point-to-point pick up from businesses and home locations—

Mr Fahour: I think our service proposition is 100 times better than these competitors, and we offer the reliability, we have a guaranteed product, we offer insurance on that and we have terrific post offices that are available for people to use.

Senator WHISH-WILSON: I would like you to know that I have used them more with my vineyard business in the past and have been very happy with Australia Post.

Mr Fahour: Thank you for saying that.

Senator WHISH-WILSON: They gave an example in the 500-gram and three-kilo pricing points for prepaid satchels and parcels. In October 2013 they were put up $1, which is a 15 per cent price rise, and they said there was such a complaint from business customers that you promptly dropped those prices six per cent in response to reactions from your customers. Do you know if that is correct?

Mr Fahour: I do not know if it is correct, but I hope you are right because it shows we are listening. If we are going to lose business, we will adjust our pricing to reflect winning business. This is a competitive business, and one of the things you would know from your private world is that our competitors would love to find out what we are up to because they want to steal our customers.

Senator WHISH-WILSON: I might give you the contact details of this. They claim to be an advocacy group for small business and supply chain logistics and it is clearly a point of concern for them.

Mr Fahour: I have never heard of them, but I am happy to find out who they are. Just to add one extra thing, one of the differences when you asked about these price changes is that there has also been a huge shift in the product. You may remember this, for example, signature on delivery. I do not know if you know, but all of the express post items now are all trackable and traceable, so these premiums—

Senator WHISH-WILSON: Your competitors offer the same service, the tracking service, in parcels.

Mr Fahour: Not for what I would call the basic vanilla service. We have made that as part of the price, so you do not pay extra for it.

Senator WHISH-WILSON: They provided me with all those types of things as well like what points of differentiation there are between your products and others. You were talking about Australia Post scrapping same day delivery in Victoria. I know we had this issue in Tasmania only a year ago but we managed to get that reversed. Were there any planned changes at all for any of your businesses in Tasmania?

Mr Fahour: Two completely different topics. Firstly we are not scrapping services—

Senator WHISH-WILSON: Next day delivery in regional Victoria?

Mr Fahour: What we are doing is meeting the letters service standards over there. The topic of Tasmania last year was around express post.

Senator WHISH-WILSON: Was that the same as same day delivery?

Mr Fahour: No, it is a completely separate product. One is an express product, and one is a reserved services letter. That express one was a completely different issue driven by the airline network changing, so we could not physically fly the product in at the time to deliver on the promise. We had to go away and renegotiate a new offering so that we could continue that service in the express market, and I was delighted that we were able to deliver on it.

Senator BOSWELL: In talking about the franchise, you are going to convert the licensed franchise to licensed post offices. How are you going to do that? Are you going to buy the existing licence? If they say that they have had them for seven years and there is a 10-year term, will you pay them out for the three years?

Mr Fahour: Each contract specifies exactly the formula. We are giving people long-term notices of what we intend. The earliest one that is going to go up is two years' time, so it is a long, long way.

Senator BOSWELL: Are you going to buy them out?

Mr Fahour: We are going to offer, firstly, talk to them about what they want. Secondly, and very importantly, we are going to give them the option of saying: 'Would you like to convert now? Would you like to sell for the formula that you have? That is your legal entitlement. Would you like to sell under the formula, or would you like to convert?

Senator BOSWELL: What is the formula?

Mr Fahour: Each one has a complex formula that basically looks at market value and does a whole bunch of things like that.

Senator BOSWELL: In the rural industry, people have leases and those leases are automatically renewed every 10, 20, 30 years. Wouldn't there be some expectation, if someone had bought a franchise for 10 years, that he would be able to roll that over at no cost or little cost? You might say that you have to put a new counter in or a new air-conditioner, but we just roll the lease over. You have paid $650,000 for this post office, you have had it for 10 years, and you come to them and say, 'We'll buy you out.' How are they supposed to get their $650,000 back, plus profit? How does that work?

Mr Fahour: I will get Ms Corbett to go into detail. To answer your question, I want to differentiate between franchise and licence. The licensee has an indefinite term—

Senator BOSWELL: I understand that.

Mr Fahour: They can buy and sell.

CHAIR: In brief, how much do they pay for the franchise for 10 years?

Mr Fahour: There is no set price for the franchise. Each franchise had a different formula, and if you would like to know how it works I can—

Senator BOSWELL: My concern is this. We can take the figure of $650,000 for 10 years, and now you are going to say to them, 'We're not going to have any franchises anymore. We'll give you the option of turning this into a licensed post office or we'll buy you out.'

Mr Fahour: They always knew from day 1 that it only goes for 10 years. When they built their model they knew that in 10 years time it will be finished. Then they have to sell.

Senator BOSWELL: They have to sell back to you?

Ms Corbett: Yes. It is a 10-year term that is clearly specified in the contract. At the end of that 10-year term there is a termination payment that is specified.

Senator BOSWELL: They pay?

Ms Corbett: Australia Post will pay them a termination payment at the end of 10 years and then that is it from the contract perspective. What would have then happened is another 10 years would have been offered and they would then have to pay us another fee for the next 10 years. When these franchisors bought into the business model, they bought in for a 10-year term. Regarding the amount that they paid at the beginning, there is a very detailed schedule in each of their contracts that specifies whether it was to terminate at the 10-year mark or at any period less than that. It is detailed on the form and is very specific, so they know exactly how much they would be paid.

Senator BOSWELL: If someone pays $600,000 and it goes for 10 years, they have to get 10 years out of it and get $600,000 back, as well as their profit and living allowance. Is that possible? At the end of those 10 years he has to say, 'I haven't got anything in it. I've put 10 years of work into this business. I now have it, and at the end of 10 years I give it back.'

Mr Fahour: That is why we have looked at the situation, because something happened in the 10 years when this was started back in 2002, 2003 and 2005, called the GFC, and there was the decline of the mail business in 2008 and 2010. Rather than letting these people's term expire and they get a termination payment, what we wish to do is to consult with them and say, 'Let's find some alternatives because we don't want to just leave you out there in this situation, even though we are contractually able to just walk away.'

Senator BOSWELL: This may be just a rumour, but I want you to either repute it or accept it. Did Australia Post disclose to the prospective franchisor the binding arrangements of the EBA6 regarding converting only 20 corporate outlets? In other words, those people told me that they were told that there would be 150 franchises and they would be in the pack, and then the unions said, 'No. We're limiting you to 20.'

Ms Corbett: I will take that on notice to find out exactly what was communicated to the franchisees. When the franchisees bought in, marketing material and roadshows were done and we said that, aspirationally, we wanted to have a network of up to 150 franchises. That network was going to be made up of licensees that may have converted to the franchise model, corporate outlets that we would convert to the franchise model, as well as green field brand new sites. So it was a mix of all of those things.

Senator URQUHART: I have a number of questions, so if you could keep the answers short so that I can get through them that would be appreciated. I note that you have recently reorganised mail sorting arrangements, I think in Geelong in regional Victoria, that will result in the loss of next-day delivery in some areas that have previously obtained it. Are there any other areas where you are proposing a reduction in the level of service?

Mr Fahour: We answered these questions in the Senate earlier today. I will summarise, just to keep it short, what was said before, which is that we are not intending to reduce our service standards in any shape or form. We are looking to meet our service standards. I think the exciting news for Geelong is that through very good consultation and dialogue we have managed in Geelong, as well as in other jurisdictions such as Wollongong in New South Wales, despite what the standard is, we have actually kept the Geelong and Wollongong communities to the next-day standard. I think it is terrific news, isn't it?

Senator URQUHART: Have the shareholder ministers expressed any concern to you about that reduction in the same-day service, because I know there is mail—

Mr Fahour: I just said we are keeping it.

Senator URQUHART: that stays behind and does not get delivered on a particular day?

Mr Fahour: I do not know what you are talking about, Senator, because I just said a minute ago that in Geelong, which is where you are asking about, we are keeping the standard.

Senator URQUHART: So there is no mail that is left at the end of the day?

Mr Fahour: No.

Senator URQUHART: Have you made any proposals to the ministers for additional services that Australia Post could offer? Along the lines of the stuff that Senator Cameron was talking about: has Australia Post made any proposals to your shareholder ministers to pick up additional services?

Mr Fahour: We do not go through the minister's office when we look to run our business. We have made a proposal to the Commission of Audit, as I had said late last year, but we just run our commercial business as per our commercial business.

Senator URQUHART: So you have put those proposals to the Commission of Audit?

Mr Fahour: Certain proposals. We put a corporate plan together and the corporate plan is approved by the shareholder minister, as it has been in previous years, but our day-to-day running of our business is done through the board and—

Senator URQUHART: Does that corporate plan involve additional services that you could offer?

Mr Fahour: It does not go into services per se. It talks about the business and the organisation and the areas it could grow.

Senator URQUHART: Would any of those services, or whatever you put into your corporate plan, compete with existing private enterprise business? So if you were to put something in your corporate plan, would that be a competition with existing businesses?

Mr Fahour: We have two businesses which we report about in our annual report. We have what is called the regulated reserved services business, which is typically our monopoly letter service business. Then we have the rest of the organisation, which completely competes in the commercial world: businesses like parcels, for example. That competes internationally and domestically.

Senator URQUHART: So that is happening.

Mr Fahour: And it has for decades.

Senator URQUHART: I just want to talk about transparency. The other GBE in this portfolio, NBN Co, has been required to publish its corporate plan. Has the minister requested that Australia Post publish its corporate plan?

Mr Fahour: No minister in the past has requested this.

Senator URQUHART: The minister is also requiring NBN Co to hold quarterly result briefings like a publicly listed company. Has the minister asked Australia Post to provide similar result briefings?

Mr Fahour: No.

Senator URQUHART: Would releasing your corporate plan and quarterly results briefings assist Australia Post to explain its challenges to its ultimate owners, or is current reporting through your shareholder minister sufficient?

Mr Fahour: I believe our current reporting arrangements are, have been in the past and continue to be sufficient.

Senator URQUHART: Do you know much about the history of the Royal Mail?

Mr Fahour: Only what I read.

Senator URQUHART: If I am right, the service initially started merely to carry the king's messages, and that third-party carriage was an addition that benefited from the growth of the official service. Are you aware of that?

Mr Fahour: Yes.

Senator URQUHART: I am going somewhere with this, so do not look surprised. The coalition's digital economy policy, released before the election, said a coalition government will:

Provide individuals and entities (on an opt-in basis) with a unique digital ‘inbox’ – a secure and permanent contact point for communication with government.

Has the minister engaged with Australia Post on how the digital mailbox could fulfil this need?

Mr Fahour: Our correspondence with the minister is obviously confidential, but we have put forward publicly—prior to the current minister, even to the previous minister—that we believe that the digital mailbox that we launched under the previous Labor government is one that could serve the country very well, and I continue to believe that we have the support of our minister to push this proposition as hard as we possibly can. I am delighted that we could find a small place in his heart in the ICT policy that he has put out.

Senator URQUHART: On the basis of the history of the development of the mail service, can you see any reason why the government should consider introducing a secure permanent inbox in any way other than the adoption of the digital mailbox that it already owns?

Mr Fahour: I think that is a matter for the minister.

Senator URQUHART: Do you want to comment on that, Minister?

Senator Fifield: I will take that on notice. I am certainly aware of the work that the Department of Human Services is undertaking in relation to introducing the basic mailbox functionality for the myGov digital service from 1 March, and I am also aware of the fact that Australians will be able to use this to get digital mail from programs from that date. The government has convened an interdepartmental committee of senior officials from relevant agencies to advise on a long-term approach to whole-of-government digital mail services in line with the government's election commitment. I hope that is of assistance.

Senator URQUHART: You will take that on notice and provide it?

Senator Fifield: Yes.

Senator URQUHART: What effect will the government's commitment to use the digital mailbox have on the attractiveness of the digital mailbox to commercial users?

Mr Fahour: I think that if the federal government and departments were to continue to work with us on a digital mailbox it would be terrific, because, in addition to the commercial companies that are on the digital mailbox, if we were to put some of the government services on it we could have an even more efficient and highly valuable product for society.

CHAIR: I want to go to the green bike experiment, Mr Fahour. Ms Walsh, are you in charge of that?

Ms Walsh: No.

CHAIR: I just thought I would ask you a question to keep you awake.

Ms Walsh: I am certainly across it.

CHAIR: Tell us about the green bike experiment, because it looks like it was not a very good experiment.

Ms Walsh: The postie bikes are dear to our hearts—and I know to the community's as well—but also dear to our heart is the safety and wellbeing of our workforce, and from time to time we seek to pilot new innovations to seek to ensure the safety of our staff as well as the speedy delivery of the mail.

CHAIR: So you changed a sample of the bikes to green from the traditional red?

Ms Walsh: That was a pilot that we undertook. Reflecting on that pilot, and also the other pilots that we had undertaken, particularly around the visibility of our posties with their wet-weather gear—

CHAIR: How much did it cost?

Ms Walsh: I would have to take that on notice.

CHAIR: Why did the trial fail?

Ms Walsh: The trial did not fail. What we do is we reflect on the pilot and the feedback from our workforce, as well as take into account all other factors, but with the pannier bags we have on our bikes, as well as the broader visibility that we have through our uniforms, we were of the view that we provided a safe environment for our posties by maintaining that important red colour for our bikes while maintaining their safety.

CHAIR: Who decided to run the trial?

Ms Walsh: I would have to take that on notice, but that is something that we as an organisation do through a group of people across our network area and our safety and human resources area.

CHAIR: Were they repainted bikes, from red to green, or were they new bikes?

Ms Walsh: I would have to take that on notice. My understanding is—

CHAIR: No-one knows?

Mr Fahour: Chair, I can answer your question.

CHAIR: Were they repainted bikes or new ones?

Mr Fahour: The green ones we brought in? They were new bikes.

CHAIR: So you bought these green bikes—

Mr Fahour: Yes, but we just repaint them. That is not a problem.

CHAIR: And why did you scrap them? What was the reason that the new green bikes were not as good as the red bikes?

Mr Fahour: Chair, let me just respond to your questions. Firstly, a trial means you are prepared to trial and if it does not work in the way you want, you change. That is okay. It is not a failure; it is just that you try some things, and some things work and some things do not.

CHAIR: It depends how serious the trial is.

Mr Fahour: Exactly. It was a very serious trial. But, do you know what? At the end of the day it did not provide the extra things that we wanted, so we will stick with the tried and true red.

CHAIR: That is fair enough, Mr Fahour, but the scheme left one postie in the state's Southern Tablelands without a bike for several months while he waited for his green bike to be repainted red. This is the point I am getting to. Did you read the story in the paper?

Mr Fahour: I must have missed that, but I would like to be Ms Walsh, because she seems to get to answer her questions all the way through and nobody jumps in. I do not consider it a failure, and I do not think we actually took them out to repaint them; I just think with the new ones coming in, they get recycled. I will take that on notice and check, but I am not sure that is completely true.

CHAIR: Don't you believe everything you read in the paper?

Mr Fahour: Thank you, Chair.

Ms Walsh: Which paper was it, Chair? It does depend.

CHAIR: Richard Noone wrote the story.

Mr Fahour: In?

CHAIR: I do not know; I have only got a clipping here.

Mr Fahour: Must be true then.

CHAIR: 'The scheme left one postie in the state's Southern Tablelands without a bike for several months while he waited for his green bike to be repainted red. Australia Post declined to comment on the cost of the trial, citing it was commercial-in-confidence between it and Honda. The company typically replaces bikes after three years of operational service or after 25,000 kilometres.'

Mr Fahour: Which do you prefer, Chair—the green or the red?

CHAIR: I am a bit of a traditionalist; stick with the red.

Mr Fahour: Same as me too.

CHAIR: Thank you for your presence. With that, we will break for dinner.

**Proceedings suspended from 18:02 to 19:05**

CHAIR: I now call officers from the department in relation to program 1.2, digital economy and postal services. Senator Urquhart.

Senator URQUHART: The Labor government released both the *National digital economy strategy: leveraging the National Broadband Network to drive Australia's digital productivity* and *Advancing Australia as a digital economy: an update to the national digital economy strategy*. Could you tell us the purpose of those reports?

Mr Clarke: The NDES, the National digital economy strategy, was designed to paint a picture of the role that digital technologies and services would play in the Australian economy in the future. It had a particular theme about why high-speed broadband would facilitate that and was an integral part of it, but it also took a broader approach around the impact of digital economies on so many businesses. So it was a broad strategic document. I will ask Mr Rizvi to speak to the second document. I cannot pull that one out of my memory.

Mr Rizvi: That was the predecessor to the NDES. I will not give a year in which it was produced, but it was the predecessor.

Senator URQUHART: So a similar—

Mr Clarke: similar scope, but the NDES was the most recent articulation by the former government on its digital strategy.

Senator URQUHART: Thank you. In a submission to the Senate Select Committee on the National Broadband Network, iiNet wrote:

The strategic review, the cost benefit analysis and the public debate are all being conducted in a public policy vacuum. Successive governments have struggled to communicate concrete reasons for an investment in NBN. Debate has continued to focus on download speeds for domestic entertainment.

No ‘National Objectives’ are presented as the drivers for the construction of the NBN, as they might be for any other infrastructure project.

The strategic review continues the failure to address any of these missing components.

Is this an accurate description?

Mr Clarke: It is a very selective reading of the literature available. The strategic review of the NBN was never intended to address the benefit side. It took as a given the broader public policy objective of ubiquitous high-speed broadband and sought to articulate the most cost-efficient, timely way of achieving that goal. So the parallel piece is the cost-benefit analysis and regulatory review that the government has commissioned and led by Dr Vertigan, and it has the explicit task of identifying the benefit side of ubiquitous high-speed broadband.

Senator URQUHART: Did the NDES provide detailed national objectives?

Mr Clarke: It did talk of it, yes. That is the short answer.

Senator URQUHART: That is fine. Short answers are good at this hour of night. Were these presented as drivers for the construction of the NBN?

Mr Clarke: It certainly articulated the policy case for ubiquitous high-speed broadband, yes. You can have a debate as to whether it did it in a robust analytical way, but in a broad sense there is no doubt that it presented the argument that all Western governments and economies are going through about the upside impact of digital technologies in transforming modern economies.

Senator URQUHART: Did any parts of the two reports that I referred to focus on the value of broadband for downloading videos?

Mr Clarke: I am not sure it focuses, but certainly the application of videoconferencing as a key tool has been highlighted in the studies. My expectation is that the cost-benefit analysis will take into account the value in things like telehealth and education, where videoconferencing is an integral part of it.

Senator URQUHART: Has the minister ever described the NBN in terms of the broadband capability required to download a video?

Mr Clarke: I cannot respond to that specifically.

Senator URQUHART: I understand there was a policy launch in April 2013 where that was outlined.

Mr Clarke: It is a very extensive policy document. I could only refer to the document itself.

Senator URQUHART: So the iiNet critique could probably be used to describe the current government's approach but not the previous government's approach?

Mr Clarke: No, I think the iiNet document as you have quoted it to me—I am not familiar with it. Has a robust cost-benefit analysis been done on the NBN? No, that is currently underway. Has the broad policy case for ubiquitous high-speed broadband been presented? Yes.

Senator URQUHART: I want to go to postal services now. Does Australia Post provide a corporate plan to shareholder ministers each year?

Mr Clarke: I will ask Mr Besgrove to respond.

Mr Besgrove: Yes, the Australia Post does provide a corporate plan to the government each year.

Senator URQUHART: Thank you. I note that the minister has great interest in transparency. Has the minister suggested that the corporate plan for Australia Post should be public?

Mr Besgrove: Not to my knowledge. I think I had better take that on notice. I do not recall him making such a suggestion.

Senator URQUHART: If you could take that on notice and come back, that would be appreciated. Does Australia Post provide an annual report that is tabled in the parliament each year?

Mr Besgrove: Yes, I believe it does.

Senator URQUHART: Has the minister suggested that Australia Post should provide a quarterly results briefing?

Mr Besgrove: Again, not to my knowledge. I would have to take that on notice.

Senator URQUHART: If you could take that on notice, that would be great. Has the minister provided any reason to you why he thinks different rules should apply to the government business enterprises in the portfolio?

Mr Besgrove: It is not something I have had any conversations with the minister about, but I am not aware of any such views.

Mr Clarke: It does need to recognise that the two GBEs in this portfolio are of very different character. One is a start-up and one is a very mature business. Both have major challenges in front of them, but they are inherently different businesses.

Senator URQUHART: Yes, I think I understand. Thanks. I will go back to the digital economy again. The advancing Australia's digital economy report identified ICT skills as an important enabler for the development of the economy. It noted:

The Australian Curriculum embeds ICT skills as a general capability across all learning areas of the curriculum. It will also include the subjects of Digital Technologies and Design Technologies which all students will study from Foundation to Year 8.

I understand this curriculum was due to be published in December but has been deferred because of the review of the national curriculum ordered by the Minister for Education. Is that correct?

Mr Rizvi: I understand that the technologies curriculum was considered by education ministers late last year. A decision was made that that curriculum would be considered by the review you referred to and which is being undertaken as commissioned by the Minister for Education. I also understand that the decision ministers made was that, to the extent that individual states wish to adopt that technologies curriculum, they were free to do so, but the review would proceed.

Senator URQUHART: Okay. If that is the case, has the Minister for Communication expressed any concern to the Minister for Education of the impact of any delay in the development of those skills?

Mr Rizvi: I am not aware of any discussions that may have taken place. They may have; it is just not to my knowledge.

Senator URQUHART: If you do not know, does the department have no responsibility for following up on their strategies?

Mr Clarke: As we discussed a short 12 hours ago, the government's policy is to update the NDES. We are working through the process. The importance of ICT skills is clear; I think it is not an issue in dispute. So we will be following up all elements of that and looking to refresh and extend that policy statement where appropriate. I am sure we will be doing it; but, as your question indicates, we do not have primary carriage of the function.

Mr Rizvi: I think it is also relevant to note that the review the Minister for Education has launched will be completed in the first half of 2014, and then we can understand which way things will go from there.

Senator URQUHART: Thanks. The update to the NDES also said:

The Government will work with state and territory governments to enhance the accessibility, usability and efficiency of the Document Verification Service – and also make the system more widely available to the private sector.

Can you update me on how that is progressing?

Mr Rizvi: That expansion process is underway. Responsibility for the document verification services rests with the Attorney-General's Department. I understand over 250 companies have applied to use the DVS, with more expected throughout 2014. The use of the DVS by government has also increased, with verifications in 2013 exceeding 2.5 million, and it is expected to exceed 4.5 million in 2014. The efficiency of the services improved, with average transaction times dropping from 2.5 seconds to 1.5 seconds during 2012-13.

Senator URQUHART: The update also said:

The Government will develop a best practice framework for Crowd Sourced Equity Funding.

Can you give me a progress report on that one?

Mr Rizvi: That is correct. That matter has been referred to a committee within the Treasury portfolio. The Corporations and Markets Advisory Committee is looking at crowdsourced equity funding as a means of encouraging new investments. The committee is scheduled to report in April 2014.

Senator URQUHART: Thank you. I note that the coalition e-government and digital economy policy was very keen to progress online engagement. The update said:

Under Digital First, by December 2017, Government agencies will provide their clients with user-friendly online access to priority services, allowing end-to-end processing for those services through a choice of a single authentication method that enables access to a range of services without needing multiple passwords or multiple tests of credentials.

Is the Digital First initiative still being implemented?

Mr Rizvi: The Digital First initiative has been replaced by the e-government and digital economy election commitment made by the current government. That sets slightly different objectives and slightly different time tables for implementation, and we are working with all relevant government agencies to implement the new election commitment.

Senator URQUHART: Do you have some detail around the objectives and the time frames on that? If you can provide it on notice, that is fine.

Mr Rizvi: I can provide the reference to the document on notice, yes.

Senator URQUHART: Thank you. My final question: has there been a substantial loss of momentum in the digital economy strategy?

Mr Rizvi: I do not believe so. We are tracking closely the 24 actions that were in the national digital economy strategy. We provide regular updates to that to the minister, who monitors them closely. The new election commitment outlines a fresh set of targets and milestones, and we are working assiduously to deliver on those.

Senator URQUHART: Is that information about the 24 points that you talked about available?

Mr Rizvi: I would need to take that on notice.

Senator URQUHART: Thank you.

CHAIR: Okay, we have completed program 1.2. I now call officers from the Australian Broadcasting Corporation.

Australian Broadcasting Corporation

[17:23]

CHAIR: Welcome. Mr Scott, would you like to make a brief opening statement?

Mr Scott: I am happy just to receive any questions that senators would like to ask.

CHAIR: Do you still stand by your belief that the ABC does not need to apologise for its slanted story on the naval personnel that had allegedly been responsible for the burns suffered by an asylum seeker or asylum seekers?

Mr Scott: We put out a detailed statement on that story and—

CHAIR: You have.

Mr Scott: as we indicated in that story, the wording around our initial reporting needed to be more precise. There were some suggestions that we should not have reported those allegations and that somehow in reporting those allegations we were being insulting to the Australian Navy. I think they are important allegations to raise and I can assure you that by raising important allegations—serious allegation—about such an important national institution as the Navy we meant no disrespect to the Navy. These were important questions to raise and to seek answers on.

CHAIR: You mention the word 'allegations'. On 22 January the host of *AM* Tim Palmer said during his introduction to Jakarta correspondent George Roberts:

New footage appears to back asylum seekers' claims of mistreatment by the Australian Navy.

He used the word 'appears'.

Mr Scott: We indicated that if there were an interpretation of that that suggested that the ABC had come to any judgement around that, then that was unfortunate, because the whole story when placed in context makes it very clear that that was not the case. The situation is that earlier in the month these allegations of mistreatment of asylum seekers had been reported across the Australian media, and some of those reports had made reference to burns allegations. Those burns allegations, as I understand, were not actually carried by the ABC news reports. So, when video came to light that showed an asylum seeker with burned hands, this clearly was important new information to come to light, and I believe that any Australian media organisation would have reported that asylum seekers had said they had received burned hands.

CHAIR: 'Seekers' plural or 'asylum seeker'?

Mr Scott: There were allegations of a person. These are the reports that came in early January. It was widely reported that a person said that asylum seekers had been injured. The question then is, I think, that when the video came to light, this was clearly important further information—and information that should have been reported. Let me make it clear, Senator, as I have made it clear on a number of occasions: the ABC did not say that this was conclusive evidence. We indicated that it raised questions that needed to be answered. We recorded the response of officials at the time. What is significant, I think, about the coverage of this story is that normally detailed documentary evidence would then emerge from the officials. In this case the circumstance is that, because there is an information lockdown around this entire operation, that information was not forthcoming.

CHAIR: There is an inquiry into the allegations—correct? Is there more information to come out?

Mr Scott: If there is an investigation that is underway, that investigation is underway by the department and those running the operation. If I may, I will go back to what was, I suppose, the thrust of your question. Many times journalists will report on serious allegations on some of the most important and significant institutions in our society. In recent years there have been allegations made against the military, allegations made against the police and allegations made against priests—serious allegations. I would say to you, Senator, that, by raising those allegations, there is no disparagement of the organisation, their history or the men and women who serve in them. It is because those institutions are important that we have to take allegations seriously when they are raised against them. That is what we sought to do with this story. We were never judge and jury on it. We said there were allegations, and we sought answers to those allegations.

CHAIR: You said there were allegations. Mr Palmer said that it appears to back the asylum seekers' claims, which to me is a step further to taking a side. The reason I raise this with you, Mr Scott, is that the inquiry is underway under the department, and, if the Navy personnel are totally exonerated, I think it is a terrible smear on them and terribly embarrassing. But time will tell that story, no doubt.

Mr Scott: We will fully report the details of any official inquiry on this as it emerges. In reporting this story, we have been seeking the truth. We want to know in detail what happened on that boat, if anything happened on that boat. The context of all our stories have been the pursuit of that. But you have got to put it in context. The Australian media had widely reported these allegations. It was not just the ABC; the Australian media had widely reported these allegations.

CHAIR: Did you report them first?

Mr Scott: No, it was reported at the same time in Australia and in Indonesia, and I do not think the ABC was first on that at all.

CHAIR: You do not 'think'? Can you check that out for us and take it on notice, please?

Mr Scott: Yes. I think a number of—

CHAIR: Moving right along—

Mr Scott: Can I say that once that story had emerged—when video evidence emerged—and the reporting that went on around that of statements that were made by people in Indonesia, including Indonesian police, that clearly was a further important story. Just as the subsequent reporting by other media outlets like *The Australian* and Fairfax newspapers were a further investigation of that story. We did not seek to act as judge and jury around this issue in any of those stories, and certainly not in the ABC story. We were raising the allegations and seeking official, detailed responses and explanations.

CHAIR: Perhaps next time your reporter might use the word 'alleged' instead of 'appears'. It might make a big difference, because there is a distinct difference between the two words. I want to take you to New Year's Eve. The ABC had exclusive rights to broadcast the celebration; is that correct?

Mr Scott: Yes, this year we did. We had not in the past, but this year we did.

CHAIR: The fireworks achieved a five-city metropolitan audience of 1.3 million people, a 53 per cent share. How much did the ABC pay to get those exclusive rights?

Mr Scott: I will have to take that on notice.

CHAIR: Please do. Did you cop a lot of flak after that showing of the ABC that night, because I have a list of complaints? The ABC was roundly criticised for its coverage of Sydney's New Year's Eve celebrations. The headline in *The Sydney Morning Herald* was 'Cringe time: nothing went right in ABC's New Year's Eve coverage'.

Mr Scott: I think it is fair to say—

CHAIR: Hang on; I have not finished. You will get your turn. There are allegations of alcohol consumption. You obviously received complaints about it being smutty. I could go on and on. Did you receive many complaints about your television broadcast of New Year's Eve?

Mr Scott: There were some tough reviews. I am not quite sure of the precise number of complaints we received, but we certainly did receive some complaints about it.

CHAIR: You received plenty of talk about it, too, on talkback radio et cetera.

Mr Scott: There was some talk about it. It was New Year's Day, which was a slow news day, and there was some discussion about it. It did attract a big audience. That audience stayed with that program all through the night. They hardly turned off and, in the days afterwards, the authorities that ran that show gave the ABC the rights to run it next year. I think there are some things editorially—some questions we would have about some judgements that were made about it.

CHAIR: I have some of the questions that were asked. For example, roving reporter Kayne Tremills requested a 'pash' from a female reveller and at one stage asked a child in the crowd: 'is your bum tired?' References to politicians, including Julia Gillard, Kevin Rudd, Simon Crean, Wayne Swan and Scott Morrison, also came in for treatment during a politically-loaded broadcast from Lord Mayor Clover Moore's New Year's Eve party on the Opera House forecourt. In segments reviewing events in 2013 references were made about Mr Abbott having 'duck feet and cocktail frankfurts,' as a photo was displayed of the PM wearing budgie smugglers on the beach. It is smutty stuff, Mr Scott.

Mr Scott: As I said, we are certainly reviewing the program editorially for the next year. There was an attempt to include some comedy, including some comedy by people who have done comedy performances during the year.

CHAIR: I think that failed dismally.

Mr Scott: I accept your judgement that you do not think it was up to scratch. Some of our audience believed that that was the case. Other members of the audience happily stayed with it throughout the evening. As I said, it received quite high ratings and, again, we have been contracted to deliver it next year. I can assure you that we are doing a detailed editorial review on it and I expect it will be a little different in tone and execution next year.

CHAIR: I would hope so, then we would not have these comments like—the twitter-sphere lit up:

ABC coverage of Sydney New Years Eve—absolutely diabolical! Bring back channel 9,7or 10! One song every hour and crap commentary—just awful.

One complaint described the show as 'just sicko garbage—it ruined the night for those who could not make it out to a vantage point.' I think you should have a good look at it next year, Mr Scott, and have a few words about the quality of it.

Mr Scott: As I said, we are.

CHAIR: I want to take you to another issue. Can you outline to the committee any recent refurbishments or office reassignment that may have been undertaken to office space of the ABC's flagship current affairs program *Four Corners*?

Mr Scott: We have done some. We have moved around some of our staff. They are operating in slightly less space than they once did.

CHAIR: Is it correct that staff from the ABC's children's program *Giggle and Hoot* have been moved into office space formerly occupied by *Four Corners*.

Mr Scott: I think that is right; they are both immensely popular programs.

CHAIR: Leading to *Four Corners* staff complaining that they have now become 'Three Corners'?

Mr Scott: I have not heard that—

CHAIR: You have now.

Mr Scott: but that would be witty, if that came from them.

CHAIR: What is the cost to taxpayers to relocate *Giggle and Hoot* to the *Four Corners* office?

Mr Scott: We will have to take that on notice.

CHAIR: Is the ABC defending Chris Kenny's action against *The Chaser* for its portrayal of Mr Kenny having sex with a dog?

Mr Scott: Have we defended it?

CHAIR: Yes. Is the ABC defending Chris Kenny's action? Chris Kenny is taking action. Is the ABC defending it?

Mr Scott: There are two matters underway with this. The first one is being addressed by the ACMA and I am waiting to hear of the ACMA's conclusion on that matter. There are legal letters from Mr Kenny and the process has started there and that is in the hands of our lawyers at the moment.

CHAIR: You are defending it?

Mr Scott: It is with our lawyers at the moment. We are addressing that issue.

CHAIR: It is in early days?

Mr Scott: I think it is fair to say that it is early days.

Senator RUSTON: On a similar topic: you made comments that you always attempt to have a balanced approach and fully report. As you can probably imagine, your *Four Corners* story *Stone Cold Justice* has received a reasonable amount of response in certain sectors of the Australian community, particularly in relation to allegations that the Israeli government had a new policy with the objective of targeting Palestinian children for the purposes of gathering intelligence. It is a pretty strong statement. When that particular story was being researched and filmed, did the ABC seek any clarification from the Israeli government as to whether that statement was factually correct?

Mr Scott: I will have to take that question on notice. The program as you would be aware was a joint venture between the ABC and *The Australian* newspaper. I believe it was extensively researched over a period of time, but, on the specifics of that, I will have to take that on notice.

Senator RUSTON: On that basis, I will give you a number of other questions that have come out of it and if you could do similarly that would be terrific.

Mr Scott: Yes. I appreciate that.

Senator RUSTON: I understand that Britain's *Independent* newspaper also covered a very similar story along the same lines, but they have subsequently run stories that have retracted a number of the allegations that were made. I would be interested to know whether you were aware of those retractions and, if so, whether the ABC has considered broadcasting similar retractions. The other question is in terms of broader policy. In international affairs there are very significant ramifications of making statements, as we found out at our last estimates with the situation of spying on Indonesia. There can be some massively significant and detrimental impacts on a nation. Given the experience of that and the experience of here, where allegations have been made against a sovereign country—some pretty serious allegations by your network—do you factor in those ramifications at that level, given the level that you are targeting with this particular type of story?

Mr Scott: We would be very happy to come back with a detailed answer on notice for you on that.

Senator RUSTON: On Paul Barry's *Media Watch* comments, which were the subject of another story yesterday in *The Australian* over the interview you had with Chris Mitchell—

Mr Scott: The interview *The Australian* did with Chris Mitchell?

Senator RUSTON: Yes. The allegations that have been made by *The Australian* are that a sentence that Mr Mitchell supposedly said in this particular interview has had the end cut off it, and the content of the half sentence leads to a misleading and out of context statement in the sense that it makes it sound like *The Australian* is in a much worse financial position than did the statement Mr Mitchell supposedly made. Do you consider that a breach of editorial policy?

Mr Scott: Let me talk broadly about *Media Watch*. I do not have a transcript of the specific one in front of me. Let me talk broadly about it. As I recall, last week Mr Barry did a show about the economics of newspapers and the challenges facing newspapers and he said that insiders had told him that *The Australian* was losing $50 million a year.

Mr Mitchell was critical that he was not directly approached on that. I think other News Limited spokespeople were approached on other newspapers, and Mr Mitchell was not approached. Mr Mitchell conceded—and my understanding is that it was clearly communicated last night that Mr Mitchell rejected the $50 million figure—that the paper was losing money. I saw some of the reporting yesterday before *Media Watch*. There was some debate because Mr Mitchell had actually said that *The Australian* had been losing money since the GFC, but there were some other reports which said that it had been contributing to News Limited profits in the last year or two. So there was some ambiguity around that. I think the test would be: were our audiences under any misapprehension as to the fact that Mr Mitchell's statement was that *The Australian* was not losing $50 million a year? I think that was made clear through the program last night.

The question, as I understand it, has been raised with some vigour by *The Australian* today about *Media Watch* and the reporting. I think *Media Watch* is clearly a different style of program that we do. If you think back on the history of *Media Watch* over the years, from Stuart Littlemore to Jonathan Holmes, often you have a senior, respected journalist providing commentary and analysis on what is happening in the media. And it is interesting: under our former editorial policies we had it classified as an opinion program. It is run by our television division. I have heard parallels made in the past that say it is closer to David and Margaret in *At the Movies* than it is to a news program. It certainly does not come out of our news division.

I understand that Mr Mitchell has put in a complaint about that story. Assuming that is right, we will investigate that under our editorial policies—*Media Watch* is reviewed under our editorial policies, as are other programs—and if a breach is seen then it can be upheld against *Media Watch*. Or, if Mr Mitchell is unhappy with that finding, then he can pursue that with the ACMA. That is the process that we follow. We have a more detailed and systematic process of independent review of audience complaints than exists anywhere else in the Australian media, with a review process that can take it to the ACMA.

Senator RUSTON: Did you give Mr Mitchell the opportunity to respond to *Media Watch*?

Mr Scott: Well I understand that in the first week he was not approached, as I said earlier—

Senator RUSTON: He was or he was not?

Mr Scott: He was not approach in the first week but that reference was made to what insiders had said—the speculation. Clearly, this would be easiest resolved if there was clarification on the record as to what the profit or loss situation of *The Australian* was, but they are a private company and they do not need to be able to reveal that. So what Mr Barry said in the first instance was that this is what insidershad told him. Then Mr Mitchell's rebuttal of that was made clear last night.

Senator RUSTON: With the greatest amount of respect, what is Mr Barry's business on *Media Watch* to be making speculative comment as to the financial position of a newspaper?

Mr Scott: Because, Senator, that is what the story was about. I have worked extensively in the newspaper industry, I have written about this and spoken about this. This is a very important public policy issue. The question is whether newspapers will continue to make money, whether the advertising erosion in newspapers and the circulation erosion of newspapers means newspapers are still viable. That is a question that has been addressed in the Fairfax results that have come out in the last week.

Senator RUSTON: Certainly, Mr Scott.

Mr Scott: That is why it is a very significant story, isn't it?

Senator RUSTON: Mr Scott, I do not have any question about the broader facts around the broader issues of a sector—and obviously a media sector is of interest to you—but we are talking about the specific information that seems to have got your organisation into a lather about a specific commercial number. We are not talking about the broader implications of the changing environment on the media landscape here; you are actually targeting the specifics of another commercial media organisation's financial details. I struggle to see why that is the business of another media organisation in its specifics. I also struggle to see how you can consider that you have not breached your own policy for fair and honest dealings by not immediately giving Mr Mitchell the opportunity to be able to comment. Obviously, you cut off the $50 million statement. You then did not give Mr Mitchell the opportunity to come back and clarify the situation. You left it hanging out there in the world for a week that *The* *Australian* is about to go broke, if anybody interpreted what you said. I do not see how that can be discussed in the same breath that you are discussing the broader issues about the media landscape. They seem to me two completely different things.

Mr Scott: I suppose I would say that I think speculation or questions about the profitability of a masthead, be it *The* *Australian* or the *Telegraph*, *The* *Sydney Morning Herald* or *The* *Age*, is central to the health, future and robust nature of the newspaper industry. I understand your question, as to whether Mr Mitchell should have been approached directly. That is a matter which will be reviewed independently by our audience and consumer affairs division. If Mr Mitchell has complaints over last night's story, that can be independently reviewed as well. I would reinforce that no-one else in the Australian media has as comprehensive a way of independently reviewing its editorial processes as the ABC. We run corrections. We run clarifications. We ran well over 100 last year as a response to the findings of our independent—

Senator RUSTON: Where do you run them?

Mr Scott: That is a good question. We are looking to change our process on that. They mainly run on the website or on the page where the original story ran because our thinking has been that that is where the audience is most likely to find them.

Senator RUSTON: Where were would you run a retraction, response or apology in relation to *Media Watch*?

Mr Scott: It depends on the story. I do not want to prejudge any of this, but one of the things I was going to say is that I think we need to make it easier for our audience to find corrections, clarifications or comments on stories. We are most likely to create one place, one website, prominently displayed, which will carry all of those rather than people having to go to individual stories or sites. Where we usually put them is where people will go looking for that story, and there is a logic in that.

Senator RUSTON: In the past, if you have ever had to make an apology on *Media Watch*, have you ever made that apology on a subsequent—

Mr Scott: Yes, there certainly have been clarifications on air on *Media Watch* in my recollection.

Senator RUSTON: Have you ever apologised or admitted to—

Mr Scott: Yes, we do apologise and there are example of that I can draw to your attention. We do apologise and we do correct.

Senator RUSTON: I must say that, in my impression, many times in the morning you pick up the newspaper and on page 2 there is an apology or a correction of some sort of inaccurate information. I am an ABC listener and an ABC watcher—it would be the predominant station that I watch. I can honestly say that I have never, ever heard a retraction, apology or correction on the ABC.

Mr Scott: We have run many of them.

CHAIR: They have probably never made a mistake.

Mr Scott: No, I can assure you we have run them—we have run them on radio; we have run them on television; we have run them at the back of programs. At times, the ACMA has made a finding and we have run them at the back of programs. So we do do that. One of the things about page 2 of a newspaper, can I say, is that some newspapers run corrections; other newspapers do not run so many corrections.

Senator RUSTON: I must read the ones that correct.

Mr Scott: What I would say is that we will be happy to run corrections and clarifications because we take our accuracy very seriously. What I want to do is create a space where people can look for it, just like newspapers have a page 2.

Senator RUSTON: I want to touch on your emergency services reporting during emergency events. Do you have a policy, or is there a policy that governs your service when you actually become the emergency broadcaster, that says what you can and cannot do in the space of those emergency broadcasts?

Mr Scott: We provide guidance to staff and training to staff. Often we have partnerships with local emergency authorities, so, as they go to a certain scale of alert, we replicate that. That might mean that we will break into programming every 15 minutes or half an hour. At times, if it is very serious we will put a warning signal on; at times, we will put a ticker on the bottom of ABC News 24. This is often spelt out in the partnerships that we have with the emergency authorities.

Senator RUSTON: I asked it in the context of myself being in a bushfire area and I was using your ABC station for regular updates. The only concerning thing that came out of it was the journalist or broadcaster would be speaking to the local CFS fire person who would be there and they then might be speaking to somebody in the fire brigade or whatever or they might be speaking to the Bureau of Meteorology. They would then bounce to Johnny Appleseed, who was out there with his hose putting water on its roof. In the same breath without any context you did not actually know that the guy from the BOM and the guy from the emergency services or the fire brigade were giving authorised information that the people needed to be take note of. But little Johnny Appleseed out there, who was obviously pretty upset because he could see some flames coming through to his house, was giving emotional information. I wondered if there was any ruling around, when you become the emergency broadcaster, what you can and cannot do.

Mr Scott: Let me provide a more detailed answer on notice for you on that. It is an issue that we are conscious of. We are very conscious of it online because the online environment creates more of an opportunity for our audience to respond. We really are quite clear in our online coverage what are official verified reports and what is information or input that is coming from our audiences that we have not been able to check or clarify. That distinction is important. I would hope in the flow of our broadcasting we make it quite clear who is official, when we are simply taking talk back calls—insights and observations from our audience—and where that distinction is. Your observations in a sense as a listener are valuable ones for us, and I would like to feed that back into our team.

Senator RUSTON: I would be very interested in the response to that.

Mr Scott: It is very interesting. We do so much more emergency broadcasting now than we did a decade ago. Over the last summer I think it is true to say that from the beginning of November to the end of March there was not a weekend that the ABC was not emergency broadcasting somewhere in the country. I think our performance has become more sophisticated and more comprehensive over that time, but we are always looking for opportunities to improve our performance.

Senator URQUHART: Following on from Senator Ruston's questioning—you can take this on notice if you like—I understand that you have a corrections section on your website?

Mr Scott: We are about to revamp that and it be will be a correction site for all of the ABC. It has not been operating in that way up until this time.

Senator URQUHART: Can you take on notice—I do not need you tell me now but if you have the information it will be fine—how many apologies has the ABC published online during TV broadcasts and during radio broadcasts in the past two years?

Mr Scott: I would have to take that on notice.

Senator URQUHART: I want to pick up on a couple of the issues from Senator Williams' argument about the quality on Australian TV. Can you outline the difference in the quality between ABC's *730*, Channel 7's *Today Tonight* and Channel 9's *A Current Affair*? And maybe the difference in the quality between the news content on ABC News Radio.

Mr Scott: I think it is fair to say they are very distinct even different programs. If you are in commercial media, your fundamental responsibility is to your shareholders so you need to put programming together that attracts a kind of audience that you can then sell to advertisers to maximise profitability. That is what your shareholders want you to do. I appreciate that the ABC is in a wonderful opportunity that we do not have to attract advertising and we do not have to make a profit so we have different standards and different goals for our programming.

Public broadcasting is all about informing, educating and entertaining. Our news and current affairs programs attempt to be competitive, they attempt to break news, they attempt to be comprehensive, to run good investigative stories and to tell Australian stories to each other. But we do not need to do it in a way that is simply striving to get the biggest audience that we can in order to maximise our profit. Therefore, I think if you look at them over time we have quite a different array of stories than the commercial networks can afford to run. And I would argue, with no disrespect to the commercial networks, that in a way, as more and more pressure has come on commercial media—it is an intensely competitive business now, with more competition coming at them all the time—the more they have had to remain very, very focused on the audience they can attract. When they had a proprietor, when someone like Kerry Packer ran Channel Nine, he was willing to sacrifice some of his profit-maximising potential in order to run an operation seriously invested in news and current affairs. I think it is very different now. So they do their job to attract their audiences and to keep their shareholders happy; we do our job to fulfil our charter under the remit of public broadcasting. If you look at the *7.30* program, it is a very robust, very competitive program; it breaks important stories and continues to play a very important part in Australian life.

Senator URQUHART: In relation to budget cuts and regional services, in the context of the efficiency review of the ABC, can you describe the difference between your obligations—which I guess you have just done to some extent—as a national television broadcaster and the obligations on the metropolitan television networks?

Mr Scott: We run a broad array of programs and, under our charter, reflecting the spirit of our charter, those programs have wide appeal and specialist interest. We run many, many programs that would never find a home on commercial television. *Four Corners* has been on the schedule of the ABC for 50 years. If the ABC was not doing *Four Corners*, there is no way that a commercial broadcaster would be able to invest the kind of money and time required to produce that 45 minutes of quality current affairs in prime time. It would not be a responsible way of their bringing a return to their shareholders. And we have many programs like that. *Compass* is a program like that, *Catalyst* is a program like that—so is our arts programming, some of our comedy programming, some of our drama programming. These are programs that would not find a home on commercial television.

Also, when you look at regional Australia—you made a reference to regional Australia—we see a major change taking place over the landscape in regional Australia. You see some withdrawal of the commercial television presence in some parts of regional Australia; in fact, there was a Senate inquiry about that a little while ago. You are getting more and more syndication from commercial radio—so one program being sent out across the country—whereas the ABC still strongly invests in local reporters, local journalists, local broadcasters in local areas, and that network of 60 local radio stations, I think, is vital to what we do. There is no doubt the kinds of pressures that have affected newspapers in metropolitan areas will also affect newspapers in regional areas; you can already see some signs of that, and that will increase. What you can expect is an increased pressure and responsibility on the ABC to keep our commitment in regional and rural Australia. It is an expensive thing to do, it is an expensive network to run, but that is what we would want to do and seek to do.

Senator URQUHART: How much television production do you do outside of Sydney and Melbourne?

Mr Scott: I would need to take that on notice. But what we do in television is increasingly work with independent production partners. So a program like *Doctor Blake* is filmed in regional Victoria, and it is filmed with independent production partners. We are making a children's program in Tasmania, working with independent production partners; we use independent production partners for documentaries in Western Australia; we do internal television production at the moment in Sydney, Melbourne and Adelaide, and we are keen to keep a mixed model of internal and co-production, and to make it in Adelaide as well. But that will depend on our budget environment over time.

Senator URQUHART: If you can provide that further information, that would be great.

Mr Scott: Sure.

Senator URQUHART: Can you also describe the radio services you provide in regional areas: how many local radio stations are there, and what resources are dedicated to radio broadcasting in regional areas?

Mr Scott: Yes, we can provide that information. I can tell you now.

Senator URQUHART: Just give me a brief overview.

Mr Scott: We have 60 local radio stations, 51 outside major metropolitan centres.

Senator URQUHART: Okay. And what resources are dedicated to those radio stations?

Mr Scott: I will give that on notice.

Senator URQUHART: You will give that on notice? Great. Were you provided with any additional funding in the 2013-14 budget to improve regional news gathering services?

Mr Scott: Yes, we were given money for news gathering.

Senator URQUHART: What was that funding, and what news services were provided?

Mr Scott: I can provide you with a detailed note on that, but one of the things we were able to do was invest in reporting skills and technology based at our regional radio stations to allow there to be far more stories that we could access and link back into the rest of the ABC, and through News 24 as well—so quite significant further investment in journalism in regional centres. Through some of the other funding we got for news we were able to invest in some specialist reporting areas, our national reporting team. You are seeing their stories on television in our current affairs programs and on our radio networks as well.

Senator URQUHART: Can you guarantee that if the ABC budget is cut you will not have to cut services to regional Australia?

Mr Scott: Well, the Prime Minister said that there would be no funding cut to the ABC, and—

CHAIR: I am questioning whether the question was hypothetical.

Senator URQUHART: No, it is not. The question is: was the guarantee that if the budget was cut you would not have to cut services?

Mr Scott: What the Prime Minister said publicly is exactly the same as what he said to me privately. He said no funding cuts to the ABC. But he also said—he has said this publicly as well—that the government, given its funding position, would not be able to fund new initiatives to the ABC. I suppose that, looking at that, we would look to continue doing some things that we have done in recent years. The ABC did find some efficiencies in recent years, and we invested those efficiencies in services for the Australian people that have proven to be very popular. ABC News 24 is clearly the most watched news service on Australian television. That was funded through savings re-invested for our audiences. IView is clearly Australia's leading catch-up television service, and that was delivered by savings re-invested for our audiences. One thing that we know about the media landscape as it exists now is that audiences' demands are ever increasing.

I am constantly under pressure for expanded iview service, for iview delivered in high definition, for more online content and to be able to deliver that content to audiences everywhere. So we will look again to save and reinvest so that we can give a return for the Australian people. If under sudden circumstances our funding was cut, then we would clearly not be able to make this investment in services that audiences are demanding. Instead we would need to look at existing services that we are offering and that attract significant audiences and are very distinctive. Nothing would be spared from that kind of review, and I can give no guarantee on any services—that any services could be spared, including rural services, if our funding was cut. But I am not expecting that, because a clear commitment was given to maintain the ABC's funding.

Senator URQUHART: Does that lack of guarantee, if funding were cut, refer to radio as well?

Mr Scott: Yes.

Senator URQUHART: Particularly digital radio?

Mr Scott: If our funding was somehow cut, we would need to look at all our services: radio, television, online, in the cities and in the bush.

Senator URQUHART: What about kids programs?

Mr Scott: If our funding were cut, the ABC board would require us as a management team to look at how best those savings might be made. If you take a longer view on this and you compare the ABC now to the ABC a couple of decades ago, you will see that we used to have 2,000 more staff and effectively $200 million more in real terms delivering a fraction of the content that we deliver today. That was back in the days when there was one television station and a couple of radio networks.

Senator URQUHART: I remember those days.

Mr Scott: Now we have four television networks, five radio networks, an international television station, an international radio network, a suite of online services, digital radio services and the catch-up iview service. So there has been a massive increase in content that has found a large and receptive audience. In a sense the ABC is not unique in this way; all media organisations have responded to the digital opportunity by expanding their output, but it does mean that, if in fact our funding were cut, we would need to look at curtailing services and everything would need to be in that purview.

Senator URQUHART: At the November 2013 estimates you said that the ABC has TV production facilities in Melbourne, Sydney and Adelaide only. You also said that the ABC Director of Television was in Tasmania in early November holding briefings with the independent production sector and that there were programs being made with the independent production sector in Tasmania, which you just refer to. Can you provide the committee with an update of these discussions with the Tasmanian independent sector and outline any Tasmanian projects that are underway and that are planned?

Mr Scott: Let me take that on notice, if I can.

Senator URQUHART: In November you also said that the director of ABC TV was going to be visiting all states and territories to talk to the independent production sector. Tasmania was the first. Which cities has that director visited to meet with those production sectors since November 2013?

Mr Scott: I can give you a report on that. I think he went everywhere. A number of our senior television executives did, and we really do enjoy the opportunity of working with talent all around the country.

Senator URQUHART: Was Brisbane visited?

Mr Scott: Yes, I believe he went to all the state capitals.

Senator URQUHART: Did he visit Cairns and Townsville?

Mr Scott: I am not sure about that. I will have to check.

Senator URQUHART: Perhaps you could take all that on notice and let us know where they went and what the outcomes in each of those cities are. That would be good.

Mr Scott: Yes.

Senator URQUHART: I have just got a few questions on standards of accuracy. Can you inform the committee of the role of ABC's standards and the code of practice in regulating the ABC's services?

Mr Scott: The ABC Board approves editorial policies for the ABC, and those editorial policies are the rules—the guidelines—that govern our program making. The board is finally responsible for the editorial standards of the ABC. They set those standards, which are circulated to all our staff, and then we systematically review performance over time. When a complaint comes in, that complaint is judged against those standards. But it is not done just through complaint processes. We have program reviews that take place within the divisions, and the ABC Board from time to time commissions independent audits to come in and look at the body of work to make sure that it is of the standard that we expect. If there is a failure to comply with those editorial policies or there is a breach of those editorial policies, the people will be notified, and often there will be a correction and a clarification that goes with that. If a complainant is unhappy with the finding of Audience and Consumer Affairs they can then take that complaint to ACMA, and ACMA will review that content against the code of practice that is spelt out by the ABC and that ACMA has a copy of. Then ACMA will provide us with advice around that, and the board will take on board that advice.

As I said earlier, there is no other broadcaster or media organisation in the country that has such a detailed process of setting guidelines and standards, then systematically and independently reviewing them internally, then having a mechanism for external review and having board oversight that can set further reviews—and the board has commissioned two reviews at this time on parts of our content, which will be released in coming weeks. It is a very, very comprehensive mechanism for standard setting.

Senator URQUHART: You also have standards about accuracy, do you not?

Mr Scott: Yes, that is part of it.

Senator URQUHART: It is part of that process.

Mr Scott: Often the breaches, or the questions that are asked by our audience, come down to accuracy, and they are often ones that are quite quickly resolved. If you have a very complex investigation that goes to a deep review of an investigative story, that will take some time. But often, if it is an accuracy question, it will be quite quickly resolved, and often quickly clarified or corrected on our website.

Senator URQUHART: A news item can be accurate when it reports what someone said, can't it, irrespective of whether what that person said is, in fact, true?

Mr Scott: Often we will report what someone says and then we will try and go to other people to seek their comment on that matter. We could report a press conference here, and factually and accurately report what a minister or a shadow minister had said. There will be plenty of conjecture from time to time—as you will be shocked to hear—as to the veracity of the comments that are made, but of course we report those comments, and we will report other commentary on it.

Senator URQUHART: On 9 April 2013 the ABC breaking news section of the website reported the release of the coalition broadband policy. It stated:

But the Opposition believes the NBN could cost more than $90 billion …

Did anyone complain that you had reported that unsubstantiated claim by the coalition?

Mr Scott: I would have to check on that.

Senator URQUHART: Did Mr Abbott run to the press to claim that the ABC was being disloyal to the hardworking executive in government employment by repeating that claim?

Mr Scott: I would have to see if he made that complaint. I cannot recall it.

Senator URQUHART: If you could take that on notice. The news item continued by saying that the figure was rejected by communications minister, Stephen Conroy, and:

On Twitter, the chair of the parliamentary committee investigating the NBN also dismissed the number.

Is this kind of reporting—an assertion, followed by direction refutation—also a standard reporting practise?

Mr Scott: What regularly happens is comments made by ministers or shadow ministers are reported and then the cut and thrust of politics takes over the story. It would not be atypical for a comment from a minister or shadow minister to be reported and then their counterparts' comments to be reported as well in the story as a whole. I do think that part of our challenge in the 24-hour news cycle and one of the big differences that has come to bear—and ABC News 24 has clearly been central to this—is that the news cycle has gotten very short. So a quarter to 10 news conference is put to air at quarter to 10 and then summarised at 10 o'clock and 11 o'clock and through the day. Once upon a time, not too long ago, the quarter to 10 news conference went to air at seven o'clock, which provided more time to check and to clarify. That is one of the reasons that I have been a supporter of the creation of fact checking. Certainly the ABC's fact checking unit has done well in this. These people are stepping back from the day-to-day rolling cycle, asking questions, going and seeking independent verification of these comments that are made and putting another perspective on it—because you are right: you often just get into this rolling cycle of assertion and counter assertion through the news cycle.

Senator URQUHART: I have just got a few questions on digital radio. What services is the ABC providing over digital radio in the five mainland state capitals?

Mr Scott: I will provide you with a comprehensive list. I can tell you that we are currently replicating all the services that are currently being provided: ABC Local, Radio National, Classic FM; NewsRadio; and Triple J. There is an extra Triple J service called triple J Unearthed, which is for unsigned recording artists. We have ABC Country; we have ABC Jazz; we have Dig Music, which will shortly be transformed into a news service which is run by Triple J; we have ABC Extra, which is a pop-up station that can do special broadcasts from time to time; and ABC Grandstand, which focuses around sport. I think that is the lot. It is a lot, Senator.

Senator URQUHART: Is the ABC participating in the digital radio trials in Darwin and Canberra?

Mr Scott: We are in Canberra; we are not in Darwin. It is a challenge for us. It is an issue that I have spoken about with the current minister and I used to speak about it at length with the previous minister. We see great opportunities for our audiences with digital radio. We have actually mounted all those digital radio services from within the budget and prioritisation of the ABC. But I am a little bit concerned that the full suite of services that are available in the five mainland state capital cities are not more broadly available.

There has been a tradition at the ABC. NewsRadio started off small and grew across the country. Triple J was once Double J, and Double J was only in Sydney, but now you can hear Triple J everywhere. So the prospect that it takes a while to roll out is not atypical. But I would worry, I think, if we ended with a situation where there is a two-tiered ABC service, and people who lived in Sydney or Melbourne or Adelaide had access to a much broader suite of radio programs through their radio set than people who lived in Darwin or Geelong or Newcastle or in other significant regional centres and country towns. All these services are available through broadband. I think there is an interesting debate as to how significant broadband will be around the distribution of radio services in the medium term. At the moment we are super servicing part of the country but we are not delivering to all of the country, and there is not a roll out plan for the rest of the country—that is finally going to have to be a decision for government.

Senator URQUHART: So on that trial in Canberra, are the same services on those trials or the ones before they are?

Mr Scott: I believe so, but if not I will come back and let you know.

Senator URQUHART: People in regional Australia are writing to us asking when they can receive digital radio. Would the ABC be able to provide additional services in regional Australia if digital radio was extended?

Mr Scott: Yes, we would. The question is not our ability to deliver the services, the question is the transmission of those services. What the government would need to do is to make an undertaking to contract for the rolling out of digital transmission towers for regional centres as has taken place in the mainland state capitals. But I am the first to concede that is not an insignificant cost. I have heard suggestions that it could be $60-$80 million to largely replicate the existing radio footprint. And that $60 million to $80 million per annum is the recurrent cost and so is not insignificant. There are also some debates as to whether in fact in all parts of the country there is the spectrum availability to be able to deliver all those services. But the management of spectrum and spectrum availability is a question for the ACMA and not the ABC. But we would be in a position to deliver those services. In fact it would be quite straightforward for us to deliver those services if the spectrum was available. But these are arguments we have been having here now for some years and there has not been a further rollout.

Senator URQUHART: Obviously that $60-$80 million that you talked about is the cost. To be clear, a government decision to extend digital radio to regional Australia would be pointless if it was not accompanied by a significant increase to your budget.

Mr Scott: No, actually what we would need to roll out, we would largely have the content cost covered now. I will give you another example—

Senator URQUHART: But the $60 million as I understood it talking about getting—

Mr Scott: the Yes, that is transmission and that would be money that would need to flow through the ABC and go to a transmission fund.

Senator URQUHART: Yes, but it will still need to put to you—

Mr Scott: It would need to flow through us but we do not run the transmission. That would go to a transmission partner. But as for the costs that we maintain, it is almost as simple as, if Radio National was not heard in Perth, there is not much additional cost for us to deliver Radio National to Perth. So it is a transmission issue really.

CHAIR: Just on the subject of digital radio to regional Australia, Mr Scott, is it the case where if you have a tower with a digital transmitter on it, it does not cover the distance of the analog, so you need many more of them? What I am saying is digital does not just travel distance from broadcasting as the traditional analog.

Mr Scott: Mr Pendleton is the transmission expert.

Mr Pendleton: It is not as efficient as AM.

CHAIR: But probably similar to FM, depending upon the power of the transmitter obviously.

Mr Scott: It is an interesting transformation. In the early days of the ABC, a handful of AM towers could cover the country. Even now there are some mornings when I am travelling to Adelaide and I can pick up Adelaide radio from Sydney driving to the airport, particularly in the early hours of the day, when AM is—

CHAIR: When it is dark.

Mr Scott: But FM does not travel as far and digital is more like it.

Senator URQUHART: So I guess the issue is whether it has to somehow come through your budget to be able to spread that out, whether it stays in your budget or goes out.

Mr Scott: Yes, that is right.

Senator URQUHART: That is all I have. Thank you, Chair.

CHAIR: Senator Seselja, this is first time I have introduced you.

Senator SESELJA: I do have a couple of areas for questioning, but before I do, Mr Scott, I go back to the issue around corrections. I was just advised that on last Friday night ABC television news at 7 pm reported that the acquisition of the P-8A Poseidon maritime planes commenced under the former Labor government. I am advised that it was actually under the Howard government. Are you able to let us know if and when that will be corrected?

Mr Scott: I will take that on notice. I was not aware of that.

Senator SESELJA: Thank you. I appreciate that. On another area, is there an ABC policy of charging to cover major events? If you are doing a TV program about a major event that is going on somewhere in the country, is there a policy of sometimes charging for that service?

Mr Scott: It would depend. Sometimes we enter into a contractual relationship with sporting partners and there will be a variety of reasons for that. I will give you an example I believe to be correct, say, from recent golf tournaments. What happens is that we broadcast that to Australia but it is a very major undertaking. In fact, the one last year, the Australian Women's Open, was at Royal Canberra Golf Club. There were two OB vans, 50-plus staff and huge towers to cover the golf, which is very expensive. So we pay a licence fee for that but we also get a payment from Golf Australia for that. For that, they get the rights then to take that broadcast and put into other markets around the world. So you could see that golf tournament in Asia, America and elsewhere. That is an arrangement we would make around some sporting events from time to time. A similar arrangement existed around the Hopman Cup.

Senator SESELJA: So it is largely sporting events?

Mr Scott: Yes, largely for sporting events

Senator SESELJA: I do not know whether this is true, so I will put it to you and you can let us know whether you know if it is true. Did the ABC charge the Royal Australian Navy to cover the centenary of Navy fireworks display which was in October of last year?

Mr Scott: Let me check on that. The one thing I can tell you, and which I am pleased to tell you, is that the celebration of the Australian Navy on Sydney Harbour was the top rating show on ABC television last year. But I am not aware of what the contractual arrangements were for that.

Senator SESELJA: Would it be surprising if it did charge?

Mr Scott: I am not sure. I will need to take that on notice.

Senator SESELJA: Given that it is a pretty major national event, is that the sort of thing you would charge for? You have mentioned sporting events and there is some rationale there, but this was the centenary of the Navy, a critical part of our nation—

Mr Scott: Let me take that on notice. I think, without wanting to prejudge the answer to that, some of these undertakings are very significant and attract big audiences. That one did. There are other ones that do not attract as big an audience. We do make a very significant financial commitment to some of these major events that we cover, such as the Australia Day coverage here.

Senator SESELJA: Australia Day Live, for instance, was charged—

Mr Scott: I am not aware of the funding details of that. I do not think so, but I will check that out for you.

Senator SESELJA: When you are doing that, can you check, if there was a charge, how much it was. I think you are right, that it was probably a big rating event. You might be able to also report back to us on how it rated in comparison to other ABC programs that would have ordinarily been on that night.

Mr Scott: Sure. The one thing I would say about our judgements and decision making around these matters—and golf is a good example—is that we come to an editorial judgement. We look at the finances and make sure it is a viable deal for our audience, but the thing that drives that decision making is an editorial judgement.

We have talked in this committee previously about the low-level of coverage of women's sport on television in Australia, with hardly anything on free-to-air television and very little on paid television. I am very pleased to say that, on the weekend before last, the ABC broadcast in the afternoon 6½ hours of women's sport on ABC1. I believe it was last weekend that the women's soccer on ABC1 out-rated the men's soccer that was broadcast on television that weekend. It was a great game. We come to an editorial judgement about it, but I am happy to give you some more information about the financing behind it.

Senator SESELJA: Just finally on that topic, would you agree that, all things being equal, the cost of televising an event like that really should be a core service of the ABC? We would expect, whether you think the budget is large or not—it is around about $1 billion—that to be the sort of program of national significance that should be absorbed into a budget like that for a national broadcaster.

Mr Scott: One of the interesting things about the ABC Charter is that is quite broad and final decisions around the prioritisation of that charter are made by the ABC Board and the ABC management team reporting through to the board. There are undertakings that are very significant. I will give you another example. We certainly do have a deal with the Department of Veterans' Affairs that has gone on for many years to enable the ABC to provide detailed and comprehensive coverage around the country on Anzac Day—Anzac marches in every capital city, the Anzac Day dawn service from Gallipoli and other events around the country. The Department of Veterans' Affairs makes an important financial contribution to that. It is the single largest day of broadcasting that the ABC does. It would be very difficult for us to do that coverage without that. When you are covering marches around the country, some of the audiences for those separately are quite small even though in aggregate it is a significant number. That is another example of partnership. We are delighted to it and it helps us to be able to do it when we have the kind of very productive partnership that we have had with the Department of Veterans' Affairs.

Senator SESELJA: Maybe on notice you could provide us with the details of the amount of that contract. That would be very interesting. There are often former political staffers on ABC television programs from both sides of politics. Is there a policy in terms of when they are identified as a former staffer? Are they always identified as former staffers? Is there any sort of consistent policy that the ABC seeks to apply to that?

Mr Scott: I can come back to you. I think that, as a rule, we would believe in as much transparency as possible for the audience. One very positive thing that the ABC has done in recent years is create programs like *The Drum*, which allowed— I said 'allowed', though I suppose they are loud at times!—a broad array of voices to be heard and for there to be a vigorous contest and debate. I think it does work well when our audience has no doubt where, if someone is still a political figure, they lie on the spectrum and what their connections are. But as to whether there are specific guidelines on that let me check and get back to you.

Senator SESELJA: I have a question on the subject of that maximum transparency. Recently I was listening in the car, and I saw it on ABC TV, when Kevin Donnelly was appointed to review the curriculum. From what I could tell he was pretty consistently referred to as 'former Liberal staffer Kevin Donnelly', notwithstanding that he has done all sorts of other things. I think he has written five books and is a senior research fellow. He was referred to as a former Liberal staffer, yet in February we heard Fran Kelly interview former ALP staffer Stephen Koukoulas about the economy. He was not identified as a former staffer of Julia Gillard. Labor's former staffer Fiona Sugden was interviewed across a number of ABC platforms recently about the Newstart payment. I understand that at no stage was she identified as Fiona Sugden, former communications director to Kevin Rudd. On 21 February this year, former Labor staffer Alan Beam appeared on ABC News 24 to talk about defence issues. He was not identified as a former Labor staffer.

I am sure there are many other examples. They may go both ways. But in terms of maximum transparency it struck me that Kevin Donnelly, who has done some pretty significant other things, was boxed as a former Liberal staffer but others who had appeared on ABC programs recently on the other side of politics have not been identified.

Mr Scott: I accept your point. I suspect that if there are examples of that they probably cut both ways. I expect that there are many people who run public affairs units or run their own companies and who have been out of politics or being staffer for a long period, and that that part of their resume fades and what they do now rises. I take on board your comment. Let me come back to you and tell you what the guidelines are.

Senator SESELJA: Kevin Donnelly would probably fall within that—

Senator Fifield: Even resumes as managing directors or parts thereof fade over time!

Mr Scott: But not senators!

Senator SESELJA: I am interested in who made the decision that the ABC should start logging boat arrivals and other asylum seeker incidents? I understand it is on the website; a log or—

Mr Scott: I will have to check on that. I do not know who—

Senator SESELJA: Do you know what the rationale was? It was set up after the federal election in September, I understand.

Mr Scott: I am not aware of that.

Senator SESELJA: We had something like 50,000 people arriving under the former government. Boat arrivals were not logged then, but under a change of government we now do see them logged at time when fewer and fewer are coming.

Senator PRATT: There was public disclosure of boat arrivals, unlike under your government. Someone had to try to keep a list.

Senator SESELJA: But they are. These are based on departmental figures, I assume.

Mr Scott: Let me come back to you on notice.

Senator SESELJA: It does seem odd for a national broadcaster. Obviously the issues around unlawful boat arrivals are fairly contentious and so is the fact that after an election, when there is a change in government, that policy changes. You are not aware as to—

Mr Scott: I am not aware of that. I do not think it is contentious to say that the government was elected on a very clear policy of stopping the boats. That was the clear statement of intention. The minister makes much of the fact of how many days have gone by since boats have arrived, so I can see that it is very central to what the government said it would do and that to put a spotlight on that is not an unreasonable thing. As to the detail of the background of that, I am not so sure.

Senator SESELJA: The same could be said of the former government. When Kevin Rudd came in he said that he was going to take a tough line on asylum seekers. Is that the test?

Mr Scott: I do not know, Senator. As I said, let me get back to you.

Senator SESELJA: Maybe when you are getting back to us, do you know how many staff are dedicated to collating the figures and updating the boat count link?

Mr Scott: Not too many I would not have thought. I am not sure that it is an onerous task.

Senator SESELJA: Can you confirm that the site was last updated on 28 January 2014?

Mr Scott: I can come back to you on.

Senator SESELJA: Okay. I understand there is no reference at all to the fact that there have not been any arrivals for over 60 days. Are you aware of that?

Mr Scott: I am not sure I am quite aware of the site, Senator. If no boats has arrived and it is logging the arrival of boats then it does not surprise me that it has not been updated.

Senator SESELJA: It is on the *ABC News* site.

Mr Scott: It is a very big news site, Senator. I will track it down.

Senator SESELJA: Thank you. I just have one other area of questioning, if I could, Chair. You would be aware that on 5 December last year the Newman government appointed Brigadier Bill Mellor.

Mr Scott: Yes.

Senator SESELJA: I dare say the state government has cracked down on criminal bikie gangs.

Mr Scott: Yes.

Senator SESELJA: You would be aware of ABC Brisbane showing the exterior and street number of Bill Mellor's home and revealing and the suburb he lived in.

Mr Scott: Yes, I am aware of that, Senator.

Senator SESELJA: How was Mr Mellor's residential address obtained?

Mr Scott: Senator, I did speak to the Premier about this, and I apologised to the Premier. I did not think it was appropriate that we gave any indication of where Mr Mellor lived. That was an oversight and I apologised to the Premier on our behalf when I became aware of it and when we looked into it. I do believe, though, that his address was obtained from the internet. He had a private investigation or security firm, or something of that nature, and it was all available on the internet. Therefore, I do not think it was a secret for anyone to find out where he lived. However, we should not have given any indication of where he did live.

Senator SESELJA: It must have been a deliberate decision, though, to film that. Who made that decision?

Mr Scott: I think that it was a decision made by those who were involved in the creation of that story. In news organisations there are a number of people who are involved who have oversight before the story goes to air. Any identification of his business—because it was an identification of his business which also happened to be his home, I understand—should have been pixilated in a way that made identification not possible. That did not happen and it was an oversight of the ABC, and I apologised to Mr Newman.

Senator SESELJA: When you were examining this before you apologised to Mr Newman did you ask the question and did you get any answer as to what was seen as the relevance of showing the home address?

Mr Scott: It was a few months ago, Senator, but it was the fact that he had moved into this new, important role and was currently operating this business. As I recall, Senator, it was in a sense a filming in the vicinity of where that business was operating. I think it was that. It should not have happened and I apologised to the Premier. He was unhappy about it but he accepted my apologise.

Senator SESELJA: You apologised to the Premier. Did you apologise to the Mellor family?

Mr Scott: I think there was contact with the Mellor family. I will need to check that.

Senator SESELJA: You did not apologise.

Mr Scott: No, the Premier contacted me. I will check what the correspondence was with the Mellor family.

Senator SESELJA: Finally, and maybe you can take this on notice, you obviously take issues around perceived bias or otherwise and being straight down the line very seriously. Have any staff, and if so how many staff, across the ABC had to be counselled for putting forward stories or for presenting them in a particular way that is seen as biased in any way?

Mr Scott: Yes. When our staff breach our editorial policies there will quite often be a review of how it happened. If that is a failure of editorial judgement, decision making or professionalism, yes, there will be counselling of them. Sometimes that will be recorded on their file and sometimes they will be given a formal notice. Staff have been performance managed out at the ABC for their inability to reach our editorial standards. We take these things very seriously. I can tell you that, in the reports of audience to consumer affairs, where we have found serious breaches they are reported through to the board level.

Senator SESELJA: Is there any record kept of the sorts of things where people have breached editorial standards?

Mr Scott: They would be kept on their personal confidential file if there were a formal recording of that, and they would be kept in file notes and the like. They are confidential file notes. These are employment matters. I can tell you that, yes, we do take these things seriously. And, as I said earlier, there is no other media organisation in the country that has a more systematic process of setting editorial standards and reviewing editorial standards than the ABC.

Senator LUDLAM: Thank you, Mr Scott and colleagues for being here. My apologies if you raised this in your opening statement; I was a bit late in getting here tonight. You announced late last year I think that you would undertake some editorial audits on the impartiality of ABC reporting. Did you address that in your opening statement?

Mr Scott: No, I did not. They are in the process of being completed, and I expect that they will be released in the coming weeks.

Senator LUDLAM: What are they and who conducted them?

Mr Scott: One is into interviews that were conducted during the election campaign of the leaders on radio and the other is into coverage of asylum seeker stories on our current affairs programs on television. We have currently only released the name of one person who has done a review, and we will release the reviews and details of who has completed them, and probably a board response to them, in coming weeks.

Senator LUDLAM: And they will be produced for the public?

Mr Scott: Yes, they will be available and probably put up on our website.

Senator LUDLAM: What was your decision to choose those two subjects in particular? You folk get kicked around for being biased in all sorts of domains. Why did you choose those two?

Mr Scott: It is a fair question. Finally, the decision was made by the ABC chairman. I discussed these matters with him. If you take a look back over the last seven or eight years, the ABC board has received I think over a dozen independent reports around different aspects of content over time: impartiality, fairness and balance, interviews, a range of issues. I think the chairman felt, and I felt, that we should make sure that the reviews addressed contentious issues or matters of public significance. There is almost nothing more important in our national debate than an election campaign, and there are very important moments when our leaders—the leader of the government and the Leader of the Opposition—appear on ABC radio to be interviewed in live interview circumstances, either by our current affairs teams or by a local radio teams. So that seemed to be a significant issue. It gave us a good sample. That review is in the process of being finalised.

Similarly, clearly the asylum seeker coverage is a very important one. It is a contentious one and it is one that some of our leading current affairs programs have come back to time and again, and we thought that was a significant one to get an independent look at as well. I expect that we will take on controversial topics and have eminent independent people provide the board with some advice on them.

Senator LUDLAM: I can understand the metric you might apply to leaders' interviews. You are going to roll some sort of scale over whether they were hostile interviews or biased in one direction or another, so I can see how you could do that. I want to briefly quote George Orwell to you, who is meant to have said, 'Journalism is printing what someone else does not want printed; everything else is public relations'. If you are taking on something as profoundly important and polarising as the refugee debate, how are you going to apply whether or not you are being too humanitarian or too hard line? Where would the centre lie?

Mr Scott: I think that is a good question, but they are the decisions that our journalists have to exercise every day, because we have editorial guidelines around fairness and balance and impartiality. How do you tell a fair story and a complete story? What we have said to the reviewer is: 'Here are our guidelines and here are these stories. Give us some advice on how you think we have gone.' We will see how this process evolves over time. I think the chairman said at the National Press Club that we would look to do about four a year, and I imagine they will be on a range of topics. I think we want to take on the important and contentious topics.

Senator LUDLAM: You had better.

Mr Scott: I think we will learn from this—I think it will be a good learning exercise for our staff and our editorial teams. As is the case when we do financial audits at the ABC, you often get a report back under a financial audit that says, 'Look, you're pretty good, but you really should look at these areas, and if you did these things in different ways maybe you would get a better performance over time.' If we get that from our editorial reviews, I think that will be a positive thing for our staff and a positive thing for the reputation of the ABC. I expect that there are some out there gleefully waiting for the ABC to conduct a review into itself so they can seize on any negative comment. I would say to them that I welcome the opportunity to share the methodology we are using and to share the process they are using. I encourage them to do their own independent reviews and to also release publicly reports on their performance.

Senator LUDLAM: Do your commercial competitors conduct these sorts of audits?

Mr Scott: I do not believe they do.

Senator LUDLAM: Interesting.

Mr Scott: Nor am I aware of them undertaking any in the newspaper industry either.

Senator LUDLAM: What do you do about an issue where balance is a problem? For example, if you propose that every time you put a climate scientist on TV, you find a dissident who disagrees and thereby provide a false impression of equivalence in argument.

Mr Scott: That is not actually what our guidelines say. There is nothing in our guidelines, and I am glad you raised it, because I think there is a misconception. Nothing in our guidelines says that we have to pull out a stopwatch and give equal time to every alternative view. Our guidelines are about following the weight of evidence, and so I suppose my feeling on climate science is that we follow the weight of evidence. That is not to say that there will not be times when some people who take a contrary view to the weight of evidence or the consensus of climate scientists get on air, and they should be robustly questioned in just the way that the climate scientists are robustly questioned. We certainly are not in a situation where we are pulling out a stopwatch and drawing a false equivalence on every view, but there are many views in our society where there are robust contentions—asylum seekers are a good example of that. There would be some who would argue a view of utmost compassion to asylum seekers, there are others who would say that sovereignty of borders is a very, very important national issue, and part of the ABC's coverage should be to respect and explore all perspectives, to ventilate that debate and to acknowledge the intelligence of our audience in that they will come to their own views on the matter.

Senator LUDLAM: Let us come to the efficiency review. You would no doubt be aware that the ABC is no. 50 on the hit list of the Institute of Public Affairs, where the proposal is, 'Break up the ABC and put out to tender each individual function.' Do you want to briefly give us your view on what you think of article 50.

Mr Scott: Given the broad-minded open discourse that the ABC encourages, I would like to point out that the ABC has provided a forum for the Institute of Public Affairs to come on our airwaves and espouse that view.

Senator LUDLAM: You do a lot. They are on there an awful lot.

Mr Scott: They are, but there are a range of voices. We welcome them, we welcome a range of voices, we welcome a range of debate and we would welcome you, Senator. That is what the public broadcaster should do—it should be hosting the debate and hosting the conversation. However, I can tell you that the IPA's plan would be catastrophic for the media in this country, for public broadcasting in this country and for our national debate and our national discourse. I meet people around the world who reinforce to me how privileged we are that the Australian public has made this investment in public broadcasting over 80 years and that we have an institution that, to this day, 85 per cent of the Australian public believe provides a valuable service; that more than 70 per cent of the Australian public watch, listen or log on to every week; that provides a host of services that commercial entities would never be in a position to financially deliver; and that delivers to great quality and integrity, generating the passion of the Australian public. I wonder why you would risk such an extraordinary service on such an experiment, and I think the Australian public would be overwhelming in their dismissal of such a radical move.

Senator LUDLAM: Where does that 85 per cent figure come from?

Mr Scott: We do an annual Newspoll survey. Newspoll independently conducts this research, and we report on it extensively in our annual report. Last year the figure was that 85 per cent of the Australian public believe that the ABC provides a valuable or very valuable service, and it is a very consistent figure over time. We operate with great trust of the Australian people and with great respect to the Australian people. We are a classic public good in that respect. The public like the fact that we are there; not everybody uses us but the vast majority of Australians do all over the country.

Senator LUDLAM: I have been fairly critical, as have senators actually right across the political divide, that in the name of efficiency the ABC has consolidated production capabilities in Sydney, and pulled a lot of people and expertise out of places like Hobart and Perth. I do not propose to go into that debate tonight, because it has been well aired. But should I read into a so-called efficiency review that there is likely to be more of that in the pipeline?

Mr Scott: Yes, it is a good question. I do not think that we really know. I think Mr Lewis is reviewing the ABC and SBS at the moment. I suppose what I would say is that if efficiencies can be made for us to deliver the same services at a lower cost then that would be a good thing to do. We could take that money and reinvest it in content for ABC audiences. We have pursued efficiencies in recent years. If there are more efficiencies than Mr Lewis can find that are not about cutting back quality and are not about cutting back services but just delivering the same services at a lower cost then we would be interested in that. But I do think—and you would understand the economics of it—there are economies of scale that come with aggregating in certain locations. When it, say, comes to doing things like running television studios, there is no doubt that you make most efficient use of those television studios by having them operating all day, every day.

Senator LUDLAM: Which is not what is happening in Perth.

Mr Scott: Which is not what is happening in Perth at the moment, that is true. But it is happening in Sydney and in Melbourne. I can see that. We are also try to make some television production in South Australia. However, I would say—and I may have said this before you can in—we are committed to making television around the country. We are making documentaries in Western Australia; we are making children's programming in Tasmania; we make programs like *Australian Story* in Queensland; and we work with the independent productions sector to make drama and factual programming all around the country. We are happy to report on where we are making that programming.

Senator LUDLAM: I want to come to the Australia Network, your view on its purpose and its future. It would seem to be first on the chopping block, really. In fact, it has been addressed separately and independently of this so-called efficiency review as something that should never have been given to you in the first place and will shortly be knocked over.

Mr Scott: Yes.

Senator LUDLAM: I might just seek your view on that.

Mr Scott: Yes.

Senator LUDLAM: What would it do to your global newsroom presence for the purposes of broadcasting into Australia, quite apart from its impacts on our regional footprint.

Mr Scott: I do not particularly want to go into that tender process.

Senator LUDLAM: No, I am happy to leave that for the moment.

Mr Scott: We had views on that at the time, and some of that was out of our hands. Sometimes I hear some of the debate around the Australia Network. I think there are three different audiences here. Sometimes there is confusion about who we are delivering for. We are really not delivering Australia Network for harried business executives slumping in their hotel room in Singapore and wanting a bit of home—they often want news and footy. Similarly, expats often want news and footy. That is not the audience, either. Under the agreement that we had with DFAT, we are targeting: the rising middle class of Asia; people who want to learn and master English; people who want to do business with us; people who want to travel here; people who want to send their kids to study here. That is the target and that is why the agreement has been on quite a broad array of programming; some of it entertainment; some of it drama; and some of it factual, business, news and English language learning. If you look at the English language learning, the Australia Network Australia Plus English Language Facebook page went through a million friends last week, which was more than the BBC and more than Voice of America.

Senator LUDLAM: More than I have got!

Mr Scott: And well more than I have got, too! So, it really is targeting that. What we have also done in 18 months is recognise that our aim with a converged radio, television, online and mobile service is not only to create content that we put out on our platforms but also to put content out there on Indonesian websites and on Chinese websites to find other television partners to distribute it as well.

So we would argue that we are actually delivering the strategy we have developed with DFAT quite well. We have had significant growth, significant partnerships. Every month it is watched by more than 1.2 million people in Thailand and Malaysia; by 3.4 million in India; by 1.6 million in the Philippines; by six per cent of the Singaporean population; and by 22 per cent of the PNG population. It has had significant growth. The digital strategy is working, but it is particularly targeting the target that we agreed with the DFAT to reach. There may be some who say, 'Play *News 24*.' There may be some who say, 'Just cater to the expats.' That has not been the target, and we are working on the target.

Senator LUDLAM: I would suggest there is another very important audience that you need to cater to, and that is the IPA and the Murdoch news rooms—but we will leave that. That is a comment rather than a question. Could I come significantly to what it would do to your news-gathering capabilities for domestic broadcast here in Australia?

Mr Scott: It would have some impact. Some of the Australia Network money goes into ABC News. What we do with that money is put some extra correspondents around the region because we are creating content for Australia Network as well as content for back here. Some of that will end up on *News 24* but a lot of it will appear on Australia Network. We would not anticipate that we would need to close specific bureaus, but some staff in bureaus would need to be reduced, and the amount of content that we are producing out of the region would be reduced as a consequence of that.

Senator LUDLAM: How many?

Mr Scott: There would be less content from Asia available for Australian audiences if Australia Network was shrunk back.

Senator LUDLAM: But are you able to describe it either FTEs or number of hours broadcast, or is that too complicated?

Mr Scott: Senator, to be truthful, I have read more about commentary of Australia Network than I have had detailed discussions with DFAT. The head of ABC International is beginning to have some discussions with DFAT, but we have not done scenario planning around it. Finally, the decision on Australia Network and the ABC's international presence lies with the ABC board. We are contracted to run Australia Network. That contract still has about nine and a half years to run. The ABC, though, has in its charter that we are to be an international broadcaster. So, finally, regarding the shape of our international commitment, if a decision was made for the government to withdraw funding—I think it would be a very unfortunate decision if that decision was made—the ABC would then need to consider what it does.

Senator LUDLAM: Is it your understanding that that commitment is locked in in legislation?

Mr Scott: What is locked in in legislation is if the Australia Network is to be delivered it is to be delivered by the ABC. The ABC is the deliverer of Australia Network. We have a contractual arrangement with DFAT for the delivery of Australia Network for 10 years, and there are implications clearly involved if DFAT were to decide that it did not want to see those 10 years through.

Senator LUDLAM: I will leave it there. Thanks for bringing *Rake* back.

Mr Scott: As promised at the last estimates, Senator.

Senator LUDLAM: As committed.

CHAIR: That will complete our session with the ABC. Mr Scott, could I thank you for your support for Heywire. It was a great day out here. Some of the youngsters from all over the countryside came, and it was great to meet with them. You did a very good job. Thank you for that.

Mr Scott: Thank you for your attendance and support, Senator. Again, the young people had the most extraordinary time. They were a great bunch again this year, and we do appreciate the bipartisan support for Heywire from this parliament.

CHAIR: I look forward to it next year.

Special Broadcasting Service

[20:54]

CHAIR: Welcome, Mr Ebeid. Would you like to make an opening statement?

Mr Ebeid: No. Given it is probably past my bedtime, I am happy to go straight to questions.

Senator PRATT: Good evening, Mr Ebeid. In the context of the efficiency of the review of SBS, are you able to describe for the committee the difference between your obligations as a national television broadcaster and the obligations on the metropolitan television networks, in general terms?

Mr Ebeid: Certainly there is a big difference. I assume that when you say 'metropolitan television networks' you are talking about the commercial networks?

Senator PRATT: Yes.

Mr Ebeid: SBS has a very unique charter. It is very different to the ABC and very different to the other commercial networks as well. Our charter is very much about celebrating and exploring cultural diversity and celebrating multiculturalism in Australia. We have a couple of different audiences. One is obviously our radio audience, where we work to serve our migrant communities in Australia to give them Australian news and current affairs, which is something they cannot get anywhere else from a public broadcaster, talking to them about Australia, what the Prime Minister is talking about, what the issues of the day are et cetera. On television we do that through talking to all Australians, no matter where they are from, to really understand and explore diversity in all its forms. We do that for the simple reason of contributing to social cohesion in all its forms, so that people can feel part of society, and to help society with social inclusion et cetera. Our purpose is very clear, our charter is very clear and our audiences are quite unique in that way.

Senator PRATT: In that context, can you outline how SBS has grown since it first started? In particular, are you now producing Australian news in languages other than English? Clearly you are, but it is an important part of your service.

Mr Ebeid: Yes. SBS has changed enormously over its 35-year history. It very much started originally, as you would know, to talk about the introduction of Medicare through recorded messages in language. Then it grew in terms of its radio services. About 70 per cent of the radio broadcast would be about homeland news services and 30 per cent was Australian news and current affairs. Over the years, with the advent of satellite channels, internet, Skype and all those things, many communities can get all that today, so we have reversed that and we focus on Australian news and current affairs for our communities in language to really help them. On television, sadly, we do not have the money to do Australian news and current affairs in language. We had a trial that lasted for about 18 months where we did Mandarin news. We did a lot of Australian news and current affairs in language. We were hoping to try and put a proposal up to government—we have done that for the last couple of years—to talk about choosing, for example, the top six languages in the country and using those in news bulletins, with an Australian news and current affairs focus in language, which we believe would be a great service to our audiences.

Senator PRATT: It certainly would be. What role does SBS play in assisting Australians for whom English is their first language but where SBS is a way of better understanding fellow Australians from diverse backgrounds?

Mr Ebeid: That is a very important part of what we do. We do that through all the key genres. When you think about the role that we play in getting all Australians to understand other cultures, that is a key part to understanding your neighbours. Often we are, as humans, afraid of what we do not know. When you better understand a culture, that leads to better social cohesion. We do that through drama and through film. Through our food genre, for example, we will literally go around the world and discover different cultures and the stories behind food, and that helps all Australians, no matter where they are from, to understand different cultures. That is a very important part of what we do. We do that through news and current affairs as well.

Senator PRATT: I am a big fan of those shows. Thank you.

Mr Ebeid: I am glad to hear it.

Senator PRATT: How many languages do you currently produce radio programs in?

Mr Ebeid: There are 74. We recently increased that from 60-odd to about 74, from April this year. We introduced a range of new languages, which are really for the new migrant groups to Australia who were not getting any services at all.

Senator PRATT: How many languages can you support the provision of English subtitles for?

Mr Ebeid: On television, you mean?

Senator PRATT: Yes.

Mr Ebeid: We do not currently do any of our foreign news services in English subtitles. That would be a very expensive task for us, which we currently do not do.

Senator PRATT: What about other language subtitles?

Mr Ebeid: We do language subtitles in our other programming—things like films and dramas et cetera; we will always subtitle those, obviously. Interestingly, when we had the trial for Mandarin News Australia, we did do that with English subtitles because there were a lot of Australians who are learning Mandarin who wanted to understand the bulletin, and that was quite successful for us. So if we ever were fortunate enough to get some funding to do in-language news services, we would certainly do that with English subtitles.

Senator PRATT: Can you guarantee that if the SBS budget were cut you would not have to cut any of these services? How would you approach that problem?

Mr Ebeid: The organisation is well known to be a very efficient organisation, and we have been underfunded for many years—in fact, the last government review that was done two years ago, by Deloitte, said that we were an underfunded organisation, and we still are. We have got a culture of having built the organisation on an efficient cost base. So therefore any changes to our cost structure or our funding would absolutely result in our having to change or look at the services that we provide. You would expect, given that about 35 per cent of our operating funds come from our own commercial sources, that we are constantly concerned about the commercial market and we are always tracking how we are going there, because it can be volatile with advertising revenue. We know that when there are changes to our funding base we would not have a choice but to look at our services.

Senator PRATT: In that context, therefore, you cannot guarantee that if the budget were cut you would not have to cease content production in one or more languages. For example, you have just said you have expanded from 60 to 74 radio languages; would services like that be at risk?

Mr Ebeid: You would have to look at what the size of the funding adjustment was, but I would find it very difficult to imagine being able to absorb any material cuts without a change in services.

Senator PRATT: When SBS reallocated its radio schedule to include the latest census data on the proportion of community languages, what reaction did you get from the community about that re-allocation?

Mr Ebeid: Firstly, I am still getting thankyou letters from various communities who are just delighted to have a language service for the first time that enables them to understand with their first tongue, their first language, the news of the day. We all know that even when you speak a language other than your first one, your comprehension is never the same as it is in your first language, so to be able to understand Australian news and current affairs in your own language is very important to many migrant groups. There is no doubt that there were some community groups who were disappointed, because we obviously had to reduce some hours to increase other hours, but even those community groups understood what we were trying to do, and most of the community groups that were decreased were ones that you could argue are well-established in Australia and could make way for some of the newer language groups in Australia—because, as you know, the make-up of immigration in Australia is very different from what it was a few years ago.

Senator PRATT: Clearly the strong sentiment attached to potential cuts like that would give you some idea of the reaction that you might have should other cuts have to be made, though.

Mr Ebeid: I can tell the committee that every time there is some sort of negative article in the media about anything to do with SBS, I am often contacted and my inbox is filled with community groups, very concerned, asking what this means for them and what they would like us to do. So, yes, there is very strong community support for the services that we provide.

Senator PRATT: What would be the likely effect on SBS and NITV if SBS were merged with the ABC?

Mr Ebeid: Firstly, let me say that there is nothing I am aware of at the moment that would lead me to think that that is something I would, or should, be concerned about. There is certainly a lot of speculation. Indeed, the whole merger speculation has been around since 1984 and it has never gone away. However, I think the fact that we are a very efficient organisation and we have been running efficiently for a long time—we have outsourced a lot of our key functions to other external providers who can do things very cheaply—means there would be very little economic benefit. In fact, at this point I probably should quote our minister, who has on many recent occasions talked to the media about how, in his extensive business experience, whenever you merge a large, well-funded organisation with a smaller, less well funded organisation, certainly economic benefits are not there. Indeed, I can say from my own experience, having done many mergers and acquisitions in my career, that the culture and the workflow practices and the cost base of larger organisations will often subsume a smaller organisation. I am obviously on the public record as saying I think it would not be a good idea. It would certainly change the culture of the organisation. Indeed, I have worked in both organisations, and I can say that the culture is very different in the two organisations, and they provide very different services.

Senator PRATT: Yes, so what do you think would be the impact on multicultural broadcasting?

Mr Ebeid: Obviously there would be a different focus and there would be a different culture within the organisation. I would be very concerned about workflow practices, cost base, et cetera. I would want to make sure that the cost base of the organisation continues to be very lean and mean to be able to provide the services that we currently do.

Senator PRATT: And you can do that without it being at the expense of multicultural diversity, but in a more monolithic organisation I would imagine that would be more difficult.

Mr Ebeid: I would imagine so too. It would be hard to imagine, frankly. I do not like to think about it.

Senator PRATT: No, nor do I. Has the SBS received any advice about whether the government will be reappointing the chair, Joseph Skrzynski, and director Elleni Bereded-Samuel when their terms expire on 26 March? If not, are you aware of any action to call for applications under the terms of the independent appointment process in the act?

Mr Ebeid: What I can tell you I am aware of is that we have been notified that the two positions will be advertised. They have called, or will call, for nominations for those two positions. There certainly will not be an automatic renewal from what I understand. I am unaware at this stage where the positions—sorry, I will start again. The positions to my knowledge have not been advertised to date, despite the fact that the expiry is at the end of March.

Senator PRATT: But your expectation is they will be?

Mr Ebeid: Yes, that is absolutely my expectation, from the letters that we have received from the minister that clearly say they will be.

Senator PRATT: And you do not know if the current appointees will stand as part of that process?

Mr Ebeid: I think that is a matter for the two individuals. I am not aware of whether they will renominate themselves or reapply for the positions. I suspect you would need to ask them.

Senator PRATT: Yes, fair enough. Just a short line of questioning on digital radio: what services is SBS providing over digital radio in the five mainland state capitals?

Mr Ebeid: We provide digital radio simulcast for our two national stations, SBS 1 and SBS 2, which provide the language services, and then we have a dedicated digital channel for additional radio services that we cannot fit onto our AM and FM stations. So that is those three. On top of that, we have an enormously successful radio station called PopAsia which really focuses on targeting the younger demographic and has a lot of Asian pop music: K-pop, J-pop et cetera.

Senator PRATT: Yes, it is good, isn't it?

Mr Ebeid: It is incredibly successful, with a huge following on both Facebook and Twitter, and it has been so successful we actually turned it into a TV show as well.

Senator PRATT: It is a great show.

Mr Ebeid: It is probably one of the most successful digital channels in attracting new audiences. We also have SBS Chill, which is chill type music—another music digital station.

Senator PRATT: SBS is participating in digital radio trials in Darwin and Canberra—is that right? Are you providing the same services on these trials?

Mr Ebeid: I am not sure, Senator—I would have to check on that and let you know. I am not aware of the situation in Darwin and Canberra.

Senator PRATT: Okay, that would be good. I am interested to know when people living in regional Australia can expect digital radio. We are getting lobbied, as members of parliament, by constituents asking for these services. Noting that Canberra and Darwin seemingly do not have trials, I am sure they would like them to. Would SBS be able to provide additional services in regional Australia if digital radio itself was extended?

Mr Ebeid: Firstly, I think it is a matter for the department. Digital radio is something that we can absolutely do, because you would just be extending the current signals to those regions. It involves equipment and capital in those other regional areas—indeed, in Canberra and Darwin as well. So it comes down to capital.

Senator PRATT: So what would it cost SBS to broadcast digital radio including facilities, operational costs and transmission? The programming would not be too bad, if you are duplicating services.

Mr Ebeid: It would be a minimal cost from our perspective but there would certainly be a significant capital cost that we would need to spend on transmission.

Senator PRATT: Okay, so it is the capital cost that you would need that would be significant.

Mr Ebeid: That is right.

Senator PRATT: So, just to be clear: if we want the government to be able to extend digital radio to regional Australia, that would be pointless if you were not also receiving an increase in your budget for that capital injection.

Mr Ebeid: That's right: you could never do it unless the government did it as a new policy proposal and the department was given money to rollout the transmission around the country. So it would involve rolling capital out at various sites around the country to be able to launch digital radio in those regional areas.

Senator PRATT: Terrific. Thank you for that.

CHAIR: Thank you, Senator Pratt. That being it for questions, thank you for your presence, Mr Ebeid. We will move on to our last witnesses for this committee. I call officers from the department in relation to program 1.3—Broadcasting and digital television. Senator Urquhart, you have questions?

Senator URQUHART: I do, thank you. Mr Clarke, I note that the department has recently issued a discussion paper in relation to two statutory reviews of the extension of digital radio. Can you explain how these reviews will bring forward the introduction of digital radio in regional areas?

Mr Clarke: I will ask Ms O'Loughlin to respond to that.

Ms O'Loughlin: Yes, as you mentioned, there are two statutory reviews being undertaken at the moment. One is on technology choices for digital radio and the second one is on the use and availability of spectrum for digital radio. Those reviews commenced with discussion papers going out on 24 December for comment by 28 February. We extended that slightly.

Senator URQUHART: Sorry, that is this December or they went out last December?

Ms O'Loughlin: The 24th of December 2013 was the release of the discussion paper and we are asking for submissions back to the department by the end of February.

Generally, with digital radio, if the industry is interested in providing digital radio services they can already apply to the ACMA for consideration. That would involve the ACMA looking at issues such as spectrum availability, interference into other areas—looking at the whole spectrum map for the area to make sure the service could start. So there is a potential for them to come forward with proposals already—we are not limiting that. To date, though, the broadcasters have been both wanting to come forward with a proposal to start digital radio in regional areas but also for the government to fund the rollout of digital radio right across regional Australia.

The commercial broadcasters are of the view that it is not commercially viable for them to roll out digital radio in regional Australia at the moment. So it is a combination of getting the technology right, getting the funding model right and also making sure we have got the right technology. We are continuing to reserve spectrum right across Australia—two bands of spectrum for digital radio, if that is to be rolled out.

Senator URQUHART: We asked ABC and SBS earlier about the implications of digital radio for them. Have you got a current estimate for the additional funding that would be required for the public broadcasters to move into regional areas with digital radio?

Ms O'Loughlin: No, we have not at this stage.

Senator URQUHART: Am I right that, in last year's budget, additional funds were made available to assist community broadcasters to move into digital radio?

Ms O'Loughlin: In last year's budget, there was a small amount of money which was about moving some self-help radio services from the Aurora satellite service to the VAST satellite service. I will ask my colleague Dr Pelling to clarify that.

Dr Pelling: Funding was provided to assist community radio broadcasters to move to digital. We would have to take it on notice, but I think there was a small additional amount in the budget last year. I cannot recall the details.

Ms O'Loughlin: We will take that on notice.

Senator URQUHART: The next part of my question is: if digital radio were extended to regional areas, the community broadcaster would expect a similar deal; has the department estimated what the cost of that might be?

Ms O'Loughlin: No, we have not.

Senator URQUHART: Are you intending to?

Ms O'Loughlin: Not at this stage. The process going forward will be: we will receive the two statutory reviews and obviously provide advice to the minister on those. Once the minister has had time to consider that, we expect he would make an announcement of what those reviews found. Then it would be a matter of whether there was any consequence from those reviews for things like planning frameworks, or the preferred technology to be used in regional areas. So that is when that discussion would commence again.

Senator URQUHART: So it is going to be at least the end of February. Do you know how long after the end of February, once that review is finished, it is to get feedback?

Ms O'Loughlin: No. We will turn it around as quickly as we can, but I do not have a date on that as yet.

Senator URQUHART: There is a current campaign through commercial radio stations seeking the extension of digital radio to regional areas; has the commercial radio sector made any approaches to government for funding to extend digital radio in regional areas?

Ms O'Loughlin: I think the last correspondence we saw with the government was around this issue of funding. Commercial Radio Australia had proposed to the government that the government follow the process that it used for digital television switch-over, which was: significant amounts of funding for the establishment of the services but also for the switch-over process. I think our observation previously in this space has been that the move to digital radio is very different from the move to digital television. That is, firstly, because we are not closing off AM or FM—we are introducing a new service and not reducing another service—which means that the significant benefit that was available through the digital television switch-over, which was getting spectrum back, is not available through digital radio. So they are very different models. That is some of the consideration that I would expect the government would need to look at.

Senator URQUHART: So, in those approaches that Commercial Radio has made, obviously they have used that, but have they indicated an amount, or is it that they have proposed the same switch-over?

Ms O'Loughlin: I am not sure that the most current number is in my mind, but the original number, I think, was about half a billion. That was for the commercials only.

Dr Pelling: No, that was commercials and ABC.

Ms O'Loughlin: Sorry, that is right.

Dr Pelling: They included in their proposals the cost for the ABC which we have no confirmation of, one way or the other.

Ms O'Loughlin: It did not include community.

Dr Pelling: It did not include community and I understand that subsequently there were conversations around the scope of how they would manage that. The proposal was initially put forward as a comprehensive proposal and then subsequently they were looking at whether they could slice and dice that to minimise the cost to government in the short term.

Senator URQUHART: All up, what would be the estimated cost to the government for moving to digital radio in regional areas?

Ms O'Loughlin: That is a bit difficult for us to answer. We only have the information that was provided from Commercial Radio Australia. Whether or not they have reconsidered that or turned their mind to that again, I cannot tell you. We certainly have not done any funding for SBS or community.

Senator URQUHART: Is there an intention to do that? Would that be part of this review?

Ms O'Loughlin: We would have to await the minister's decisions on the two reviews before we move to something as dramatic as doing the costings.

Senator URQUHART: Would there be any offsetting revenue potentially available from the sale of spectrum resulting from extending digital radio into regional areas?

Ms O'Loughlin: No, we do not believe so. As I said earlier, the difference between digital television and digital radio is with digital television we took back seven megahertz of spectrum right across the country, and that has been auctioned off for LTE services and new mobile broadband services. With digital radio, it is an adjunct service—we keep AM going, we keep FM going and we introduce digital. There is no retrieval of spectrum. Of course, things like AM radio we expect will be used for many years ahead, because of its importance for things like emergency broadcasting.

CHAIR: That concludes the committee's examination of the communications portfolio. Senators are reminded that written questions on notice should be provided to the secretariat by close of business next Monday, 3 March. I thank Minister Fifield and officers for their attendance and Hansard—thank you for your long hours and hard work. To the secretariat staff, Sarah and Christine, thank you very much.

**Committee adjourned at 21:22**