

Performance Reporting

Background

- 2.1 The Shareholder Ministers' Third National Broadband Network (NBN) rollout Performance Report (the Performance Report) covers the six month period ended on 30 June 2012.
- 2.2 The Third Performance Report includes:
- A summary of the key milestones met by NBN Co Limited (NBN Co) in the period covered
 - Six monthly and annual financial statements for the period ended 30 June 2012, and
 - 'Measurement against' Key Performance Indicators (KPIs) for the NBN Co 'as at 30 June 2012'.¹
- 2.3 This chapter outlines and discusses the performance information associated with the physical NBN rollout. Discussion on additional NBN rollout issues such as medical alarms and providing a fibre connection to multi-dwelling units is included in Chapter 5. An outline of the progress on regulatory and pricing issues is included in Chapter 3. Remaining issues relating to regional and remote Australia are discussed in Chapter 4.

¹ Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 3.

Key Features of the Performance Report

Format and Content

- 2.4 The Third Performance Report provides an overview of the status of the NBN rollout in a similar format to the previous performance report. The KPIs table at the back of the report provides an overall snapshot of the progress of completion of the fibre, fixed wireless and satellite networks. Unaudited financial results for the NBN Co Group have continued to be included within the Performance Report.
- 2.5 The main difference in the presentation of the information contained in the Performance Report is that the data for the fixed wireless and satellite networks has now been combined.
- 2.6 A map of the places visited by the NBN Co Discovery Truck (covering New South Wales, South Australia, Tasmania and Victoria) is included as an attachment for the first time.
- 2.7 A similar qualifying statement as included in previous Performance Reports, supporting the status of the NBN rollout is included. The NBN Co has stated in the preamble to its 'Corporate KPI' tables:
- This is the third report and as such reflects initial reporting while systems and reporting processes are still in development. The data will become more meaningful against actual and forecast measures as the reporting series builds up over time. This report is consistent with a start-up company in the early years of the rollout. Further KPIs will be brought online as agreed with the Shareholders.²
- 2.8 In response to the change in KPIs and comparing NBN rollout performance against targets into the future, the NBN Co stated:
- The KPI reporting framework has been broadly consistent across each of the three progress reports provided to the [committee]. The indicators included in future reports will be expanded so that, over time, the reports will include further detail as the company and its reporting systems mature and the rollout ramps up. KPIs will measure NBN Co performance against its Corporate Plan targets.³

2 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 36.

3 NBN Co, *Submission 7.10*, Answer to Question on Notice No. 6.

Key Performance Indicators

New Targets and Timeframes

- 2.9 The NBN Co Corporate Plan sets out a revised table of NBN targets for premises passed or covered and premises with active service, but with new classifications of the three technologies under the NBN.⁴
- 2.10 The Fibre-to-the-Premise (FTTP) Brownfield category remains; fixed wireless and satellite have been combined; and FTTP for Greenfields is represented separately. In addition, figures are presented as cumulative year on year instead of incremental year on year.⁵
- 2.11 The NBN Co explained the reason for combining the fixed wireless and satellite targets and stated:
- The reason we have combined them is that we are finding that, where we are not able to put up a cell site, a tower, we obviously have to use a satellite solution – and we have made that very public. The reason we have then combined them is that we want to have that flexibility in case we cannot get a site approved. ... We are not certain of the break-up, so we thought it best to say: this is the total of those two technologies.⁶
- 2.12 While ‘the annual run rate is back in line with the 2011-2013 Corporate Plan by FY2015’, changes to deployment forecasts have been attributed to the below factors:⁷
- Delays in finalising the conditions precedent of the Telstra Agreement
 - Prolonged negotiations in order to achieve sustainable and cost effective construction contracts
 - The decision to increase the points of interconnect from 14 to 121
 - Slower than anticipated occupation rate and connection demand in new developments
 - Priority given to deployment of the transit network, NBN Co’s obligation to connect new developments and deployment of the fixed wireless network.⁸

4 NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 36.

5 NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 36.

6 Mr Mike Quigley, CEO, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, p. 19.

7 NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 35.

8 NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 35.

- 2.13 Tables of targets included in both the 2011-2013 Corporate Plan and the 2012-2015 Corporate Plan follow.

Drawing Target Comparisons

- 2.14 Comparing the targets of premises passed figures in the NBN Co Corporate Plan 2011-2013 and similar targets in the new NBN Co Corporate Plan 2012-2015 shows a marked difference in figures.
- 2.15 For the financial year ended on 30 June 2012, the original target for FTTP Brownfields for Premises Passed or Covered was 132 000, this figure was revised down to 29 000 in the new NBN Co Corporate Plan 2012-2015. The actual figure reached as stated in the Performance Report is 28 860 premises passed. Similarly, the majority of targets originally listed in the NBN Co Corporate Plan 2011-2013 have either been revised down, combined or no original target figure published.
- 2.16 The legal notice preamble in the NBN Co Corporate Plan 2013-2015 places a caveat on its 'forward looking statements'. The Legal Notice states:
- ...Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond NBN Co's control. While such forward looking statements are based on NBN Co's best considered professional assessment, NBN Co's officers do not give any assurance to any third party that the results, performance or achievements expressed or implied by such forward looking statements will actually occur, and such statements should not be relied on or considered to be a representation of what will happen by any third party. Other than as required by NBN Co's reporting obligations to the Commonwealth, NBN Co and its officers have no obligation to update these forward looking statements based on circumstances, developments or events occurring after the date of this Corporate Plan.⁹
- 2.17 When asked whether the NBN Co had a moral or legal obligation to meet the NBN rollout targets outlined in its revised corporate plan, the NBN Co stated:
- I do not think that we have a legal requirement. I can check with our lawyers on this one, but I do not think so.¹⁰

⁹ NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 2.

¹⁰ Mr Quigley, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, p. 24.

2.18 Further, during the Third Review the NBN Co stated that it was 'neither reasonable, nor valid to compare NBN Co's performance with the deployment forecasts that were included in the December 2010 corporate plan.' The NBN Co stated:

... it is neither reasonable nor valid to compare NBN Co's performance with the deployment forecasts that were included in the December 2010 corporate plan. However, it is perfectly legitimate to measure NBN Co's performance against the announcements we have made in our 12-month and three-year rollout schedules. We are ready to be measured and held accountable for our performance versus what we have committed to in those rollout schedules, but I would also like to be clear that, if there are any future policy changes, the assumptions in the corporate plan we are about to submit may have to change.¹¹

NBN Co Corporate Plan 2011-2013

Table 2.1 Premises Passed or Covered (incremental year on year)¹²

	FTTP Brownfields	FTTP Greenfields Build	FTTP Greenfields BOT	Satellite First Release	Wireless	Total
June 2011	13 000	-	45 000	165 000	-	223 000
June 2012	132 000	7000	120 000	-	14 000	273 000
June 2013	805 000	63 000	84 000	-	269 000	1 221 000
Total	950 000	70 000	249 000	165 000	283 000	1 717 000

11 Mr Quigley, NBN Co, Transcript of Evidence, Sydney, 16 April 2012, pp 47-48.

12 NBN Co, *Corporate Plan 2011-2013*, December 2010, Exhibit 1.1, p. 15.

New NBN Co Corporate Plan 2012-2015

Table 2.2 Premises or Lots Passed or Covered (cumulative year-on-year)¹³

2012-15 CP					
Premises or Lots Passed*/Covered YoY					
	FTTP Brownfields	Fixed wireless and satellite	Subtotal brownfields and fixed wireless and satellite	FTTP Greenfields**	Total
FY2011	18 000	165 000	183 000	-	183 000
FY2012	29 000	174 000	203 000	10 000	213 000
FY2013	286 000	320 000	606 000	55 000	661 000
FY2014	1 129 000	374 000	1 503 000	178 000	1 681 000
FY2015	2 499 000	752 000	3 251 000	413 000	3 664 000
FY2016	3 862 000	907 000	4 769 000	763 000	5 532 000

*Greenfields in new developments: lots passed may not equal premises passed depending on developer's timeframe to build.

**FTTP Greenfields are demand-driven activities which are subject to variations in housing starts and Developer activities (supply of new premises and demand from new developers for NBN Co to install fibre).

NBN Co Corporate Plan 2011-2013

Table 2.3 Premises with Active Service (incremental year on year)¹⁴

	FTTP Brownfields	FTTP Greenfields Build	FTTP Greenfields BOT	Satellite First Release	Wireless	Total
June 2011	-	-	35 000	-	-	35 000
June 2012	5000	5000	92 000	13 000	1000	116 000
June 2013	255 000	55 000	64 000	20 000	25 000	419 000
Total	260 000	60 000	191 000	33 000	26 000	570 000

13 NBN Co, *Corporate Plan 2012-2015*, December 2010, Exhibit 5-1, p. 36.

14 NBN Co, *Corporate Plan 2011-13*, December 2010, Exhibit 1.2, p. 15.

New NBN Co Corporate Plan 2012-2015

Table 2.4 Premises with Active Service (cumulative year on year)¹⁵

2012-15 CP					
Premises or Lots Passed*/Covered YoY					
	FTTP Brownfields	Fixed wireless and satellite	Subtotal brownfields and fixed wireless and satellite	FTTP Greenfields*	Total
FY2011	600	200	800	-	800
FY2012	3000	10 000	13 000	500	13 500
FY2013	44 000	38 000	82 000	10 000	92 000
FY2014	420 000	64 000	484 000	67 000	551 000
FY2015	1 311 000	100 000	1 411 000	204 000	1 615 000
FY2016	2 559 000	145 000	2 704 000	477 000	3 181 000

*FTTP Greenfields are demand-driven activities which are subject to variations in housing starts and Developer activities (supply of new premises and demand from new developers for NBN Co to install fibre).

Delay in NBN Rollout Commencement

2.19 The NBN Co 2012-2015 Corporate Plan includes adjustments that have been made in regard to the stated nine month delay in the NBN rollout.¹⁶ The NBN Co outlined these delays and stated:

There were a number of reasons, one of which was the ACCC decision on the points of interconnect. They moved from 14, which we had based our network on and designed it for, to 121. That required a rejig of the network – quite a substantial one. We had anticipated getting the national duct data in June. We got it the following March. Of course, the construction contracts themselves took a bit longer for us to negotiate because we terminated a process and went into a new process to make sure that we get value for money for the Australian taxpayer. I have to also say that the issues we talked about with addresses were also quite a task to undertake. We also took on board, on 1 January 2011, the

15 NBN Co, *Corporate Plan 2012-2015*, August 2012, Exhibit 5-2, p. 36.

16 These reasons are outlined in Chapter 1 of the report on page 1.

greenfields requirement – and I have some information because I know the committee is interested in greenfields, but it looks like we are out of time to do that – and that was quite a substantial undertaking.¹⁷

2.20 The ACCC commented on its role in the consideration of the Telstra Structural Separation Undertaking (on which the Telstra Agreement relied for finalisation) and the perception that the ACCC had contributed to the delay in the NBN rollout commencement. The ACCC stated:

...any delay that I have heard potentially attributed to us was potentially the delay in approving the Telstra structural separation undertaking. That took us six and a half months to approve. My understanding was the original NBN timetable meant that that would all be settled by the middle of 2011. As it happened, it never came to us until the end of July, so we never even had it. To have even approved it in one month would have meant that we would have had to just close our eyes and sign. In fact, because we were trying to get interim equivalence and transparency, it was necessarily a complicated issue. I can understand that NBN were forecasting on the basis of an agreement that actually had to be settled between the ACCC and Telstra. So they may have found that hard to judge. I think the key delay was the negotiations between NBN and Telstra. Our role necessarily was always going to take an amount of time – whether that was four, five, six or nine months. These things do take time. I do not think we contributed to the delay at all.¹⁸

2.21 The NBN Co clarified the events that lead to the delay in the commencement of the NBN rollout and stated:

We are not suggesting that the ACCC contributed to the delay. We anticipated in December 2010 that we would have reached agreement and could start using the national duct data from Telstra – which we need to do all the things that [have been] spoken about – by June 2011. That was probably optimistic. We underestimated the length of time and the complexity of reaching final agreement with Telstra and we also did not anticipate the fact that the deal could not commence until after the Telstra [structural separation undertaking] SSU, nor how long that would take. It did

17 Mr Quigley, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, p. 23.

18 Mr Rod Sims, Chairman, ACCC, Transcript of Evidence, Canberra, 14 August 2012, p. 2.

not occur until March [2012], so we could not get the national duct data until then. So we could not do the design process that we talked about earlier.¹⁹

National Broadband Network Rollout Progress

Progress over the Reporting Period

- 2.22 The Performance Report, similarly to previous reports included the progress information on the NBN rollout over the period from 1 January to 30 June 2012, in addition to developments contributing to the NBN rollout covering the three month period from 1 July to 1 October 2012.
- 2.23 The key statistical results for the NBN rollout in the reporting period are listed in Table 2.5. For the purposes of comparison and to facilitate identification of progress, results are presented alongside the NBN Co Corporate Plan 2012-2015 targets.

¹⁹ Mr Quigley, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, pp 22-23.

Table 2.5 Key Results of the National Broadband Network Rollout for the six month period ended on 30 June 2012 (Construction commenced and Premises Passed/Covered)

Cumulative Metrics	NBN Co 2012-2015 Corporate Plan Targets (p. 36)	Cumulative current half year as at 30 June 2012	Cumulative previous half year as at 31 Dec 2011
Construction Commenced²⁰			
Brownfields		280 142	77 357
New Development Lots		13 885	12 723
Fixed Wireless and Satellite		7062	1952
Premises passed (PP)/covered			
Brownfields	29 000	28 860	18 243
New Development Lots	10 000	10 054	951
Fixed Wireless and Satellite	174 000	173 885	165 000
Total PP (across the three technologies)	213 000	212 799	

Source Shareholder Ministers' Performance Report, Submission 13, p. 5.

2.24 For Premises passed/covered, the half year results show that the NBN Co achieved for:

- Brownfields – 28 860 premises passed/ covered which is just below the target of 29 000.
- New development lots or greenfields - 10 054 lots passed/covered which slightly exceeds the target of 10 000 lots.
- Fixed wireless and satellite – 173 885 premises passed/ covered which is just below the target of 174 000 premises.

2.25 Table 2.5 contains a comparison of the totals (across the three network technologies) for the six month period ended 30 June 2012 and shows

20 Construction commenced represents contract instructions have been issued together with the initial Network Design Document so that construction partners can commence work on the detailed design, field instructions and rodding/roping activities in a Fibre Serving Area Module (FSAM). This is followed by the release of a rollout map for the FSAM on the NBN Co website showing the coverage areas for that FSAM and the estimated number of premises to be passed/covered. Shareholder Ministers, 'Performance Report to 30 June 2012, Submission 13, p. 5.

the NBN Co is just below its total target of premises passed/ covered (213 000), with 212 799 premises covered.²¹

Table 2.6 Key Results of the National Broadband Network Rollout for the six month period ended on 30 June 2012 (Premises Activated)

Cumulative Metrics	NBN Co 2012-2015 Corporate Plan Targets (p. 36)	Cumulative current half year as at 30 June 2012	Cumulative previous half year as at 31 Dec 2011
Premises Activated (PA)			
Brownfields	3000	3364	2095
New Development Lots	500	503	110
Fixed Wireless and Satellite	10 000	9669	2197
Total PA (across the three Technologies)	13 500	13 536	

2.26 As shown in Table 2.6, for Premises Activated, the half year results show that the NBN Co achieved for:

- Brownfields - 3364 premises activated which exceeds the target of 3000.
- New development lots or greenfields - 503 lots activated which slightly exceeds the target of 500 lots.
- Fixed wireless and satellite - 9669 premises activated which is just below the target of 10 000 premises.

2.27 Comparison of totals (across the three network technologies) for the six month period ended 30 June 2012, shows that while the NBN Co is just below its total target of premises activated for fixed and wireless, overall, the NBN Co has exceeded its target (13 500), with 13 536 premises activated.²²

21 The NBN Co targets for premises or lots passed/covered are rounded to the nearest thousand. NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 36.

22 The NBN Co targets for premises activated are rounded to the nearest thousand where number of premises or lots exceeds 1000. NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 36.

Current Progress

2.28 The Government's Performance Report also includes an update on events that have occurred since the reporting period from 1 July to 1 October 2012.

2.29 The key announcements and events identified in the Performance Report are listed in Table 2.7.

Table 2.7 Key National Broadband Network Rollout Events from 1 July 2012 to 1 October 2012

Date (2012)	Event/Announcement
3 - 12 July	NBN Co announces local government areas in NSW and Qld to receive fixed wireless services from mid to late 2013
12 July	<ul style="list-style-type: none"> NBN Co published its Network Extension Program NBN Co announces ViaSat - Carlsbad, California selected to provide ground systems for Long Term Satellite Service
19 July	Optus Agreement authorised by ACCC
8 August	NBN Co's new Corporate Plan released
9 August	Opening of expanded Prysmian fibre manufacturing facility in Dee Why, NSW
16 August	Report released - Operation of the <i>Freedom of Information Act 1982</i> and its application to NBN Co held documents
24 August	Ceduna, SA selected as fourth satellite ground station location
4 September	NBN Co released 'NBN for Business' a publication to assist small business 'to make the most of high speed broadband'
6 September	<p>Silcar and Service Stream are announced as the NBN network maintenance and installation providers over the next two years</p> <p>NBN fixed wireless services are made available in Geraldton, WA</p>
19 September	Opening of NBN Co's National Contact Centre at Varsity Lakes, Qld
28 September	<ul style="list-style-type: none"> NBN Co lodges its revised Special Access Undertaking with the ACCC Telecommunication providers are now able to use NBN's Multicast feature
1 October	Geraldton, Carnarvon and Kalgoorlie, WA selected as location for three new satellite ground stations

Source Shareholder Ministers' Performance Report, Submission 13, pp 4-5.

Planned Progress

Table 2.8 Deployment Schedule for 2012-2015 Corporate Plan²³

Deployment Schedule from FY 2011 to FY2021											
June YE	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Brownfields Premises Passed (000's)	18	29	286	1129	2499	3862	5168	6423	7610	8879	10091
BF Premises passed Daily Run Rate (250 working days/year)	73	42	1028	3372	5482	5450	5225	5020	4746	5078	4847
Greenfields Premises Passed (000's premises)	-	10	55	178	413	763	1111	1415	1673	1904	2111
GF Premises Passed Daily Run Rate (250 working days/year)	-	40	179	492	941	1400	1392	1215	1033	922	829
Fibre Premises Passed (000's Premises)	18	39	341	1307	2912	4625	6279	7838	9283	10 783	12 202
Fibre Premises Passed Daily Run Rate (250 working days/year)	73	83	1207	3864	6423	6850	6617	6235	5780	6001	5677
Brownfields Premises Connected (000's)	1	3	44	420	1311	2559	3566	4578	5468	6195	6939
BF Premises connected Daily Run Rate (250 working days/year)	3	11	161	1504	3565	4991	4029	4047	3562	2908	2976
Greenfields Premises Connected (000's premises)	-	1	10	67	204	477	775	1017	1227	1412	1574
GF Premises Connected Daily Run Rate (250 working days/year)	-	2	40	227	548	1092	1189	968	841	740	649
Fibre Premises Connected (000's Premises)	1	4	54	487	1515	3036	4341	5594	6695	7607	8513
Fibre Premises Connected Daily Run Rate (250 working days/year)	3	13	201	1731	4114	6083	5218	5016	4403	3648	3624
Fixed Wireless and Satellite Premises Covered (000's Premises)	165	174	320	374	752	907	921	934	948	961	974
Fixed Wireless and Satellite Premises Connected (000's Premises)	0	10	38	64	100	145	161	191	206	219	232
Total Premises Connected - All Platforms (000' Premises)	1	14	92	551	1615	3181	4502	5785	6901	7827	8745

23 NBN Co, *Corporate Plan 2012-2015*, August 2012, Exhibit 5-3, p. 37.

- 2.30 Table 2.8 shows the NBN Co's planned deployment schedule for 2012-2015 for brownfields, greenfields, and fixed wireless and satellite - premises passed, daily run rates, and premises connected.
- 2.31 By the end of 2012, as shown in Table 2.8, 14 000 premises are planned to be connected across all platforms of the NBN, with this number increasing exponentially to 92 000 by the end of 2013.
- 2.32 In a statement made in relation to NBN rollout data for the six month period ended on 31 December 2012, the NBN Co stated that it expected NBN rollout to be 'ramped up' in the fourth quarter of the 2012-2013 financial year. The NBN Co stated:
- The results reflect progress in the early stages of the rollout, and are what we would expect given the time and work necessary to put in place the contracts and agreements needed to get to this point of execution. As can be seen by our targets, this rollout is not a linear progression, but a rapid ramp-up. We are targeting to pass more premises in the final quarter of the financial year than we will have passed in the entire project up to the beginning of that quarter. Additional construction resources will be added over the coming months to help achieve these targets.²⁴

NBN Co's Unaudited Financial Results

- 2.33 The Shareholder Ministers' report contains unaudited consolidated financial statements for the NBN Group for the six month period and financial year ended on 30 June 2012.
- 2.34 As these statements are unaudited they were not accompanied with an auditor's statement or explanatory notes verifying their non qualification and accuracy respectively.
- 2.35 When asked about why unaudited financial results instead of audited financial statements were included in the Performance Report, the NBN Co stated:
- That is what I would have to refer to the department. This is the Government's report, so I would have to refer it to them.²⁵

24 NBN Co, 2013, 34 500 Australian homes and businesses now using the NBN, media release, 29 January.

25 Mr Robin Payne, Chief Financial Officer, NBN Co, Transcript of Evidence, Canberra 30 October 2012, p. 24.

2.36 The Department of Broadband, Communications and the Digital Economy (DBCDE) subsequently responded that:

The Government's progress reports on the National Broadband Network cover six monthly periods to 30 June and 31 December and are based on information provided by NBN Co.

The financial statements contained within the government's progress reports are not subject to the same auditing arrangements as those applied to annual reports. While NBN Co's annual report had been tabled by the time of the 30 October Joint Committee hearing, preparation of the government's progress report was undertaken separately and was therefore appropriately marked as unaudited.²⁶

2.37 In the absence of accompanying explanatory and verification documents, supporting financial information and some information has been taken from the NBN Co 2012 Annual Report and some from the Performance Report.

Equity Funding

2.38 Over the six month period the Government provided \$350 million in equity funding to the NBN Co.²⁷ In reference to equity funding provided, the NBN Co Annual Report states:

To the extent that the Commonwealth has provided for equity funding in forward budget estimates, NBN Co has recorded this as expected equity funding in the Schedule of Commitments. The expected equity funding to the company as at 30 June 2012 is \$24.668 billion. As at 30 June 2012 a total of \$2.832 billion has been made available to the [NBN Co].²⁸

2.39 The current Equity Funding Agreement between NBN Co and the Government was capped at \$27.5 billion with reference to the NBN Co Corporate Plan 2011-2013. With the release of the 2012-2015 NBN Co Corporate Plan (which contains revised targets), on 8 August 2012, total equity funding was increased by approximately \$3 billion to a total of \$30.4 billion.²⁹

26 DBCDE, Submission 14, answer to question on notice No. 88.

27 NBN Co, *Annual Report 2011-2012*, p. 101.

28 NBN Co, *Annual Report 2011-2012*, p. 101.

29 NBN Co, *Annual Report 2011-2012*, p. 101.

Financial Result

- 2.40 Over the six month period, the NBN Co experienced an operating loss of approximately \$300 million (exact amount is \$299 639 000)³⁰ with an operating loss of approximately \$520 million (exact amount is \$520 205 000) for the end of the 12-month period.³¹ This is approximately \$197 million more than for the previous year. Operational expenditure over the 12-month period to 30 June 2012 was attributed to:
- \$222 million – employment costs³² (\$119 million for previous year)³³
 - \$136 million for IT and direct telecommunications costs³⁴ (\$37 million for previous year)³⁵
 - \$89 million for outsourced technical and legal advice expenses³⁶ (\$161 million for previous year).³⁷
- 2.41 For the 2011-2012 financial year the NBN Co received revenue of approximately \$62 million consisting of telecommunications revenue (\$1.9 million), other revenue (\$19 000) and interest income (approximately \$60 million).³⁸
- 2.42 Total expenses increased from the previous year of \$355 837 million to \$589 052 million.³⁹
- 2.43 When asked how long the NBN Co expects to be in the position of experiencing an operating loss, the NBN Co stated 'that is in the corporate plan; I think it is 2019.'⁴⁰
- 2.44 The NBN Co explained the operating loss timeframe and stated:

30 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 31.

31 NBN Co, *Annual Report 2011-2012*, p. 58.

32 NBN Co, *Annual Report 2011-2012*, p. 18 and Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 27.

33 NBN Co, *Annual Report 2010-2011*, p. 10.

34 NBN Co, *Annual Report 2011-2012*, p. 18 and Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 27.

35 NBN Co, *Annual Report 2010-2011*, p. 10

36 NBN Co, *Annual Report 2011-2012*, p. 18 and Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 27.

37 NBN Co, *Annual Report 2010-2011*, p. 10.

38 NBN Co, *Annual Report 2011-2012*, p. 58 and Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 30.

39 NBN Co, *Annual Report 2011-2012*, p. 58.

40 Mr Quigley, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, p. 24.

NBN Co's projected cash flows are typical of large-scale infrastructure projects that require up front capital and operating expenditure to design and construct the network in order to generate revenue streams in future periods. NBN Co's revenue streams are gradually projected to build up as the network is rolled out and service providers develop their customer base of end-user premises onto the Fibre, Fixed Wireless and Satellite networks. As revenue streams gradually build up, these are projected to exceed Operating expenditure in FY2019.⁴¹

Timing of Performance Information

Government's Performance Report

- 2.45 The Government's Performance Report was received by the committee on 23 October 2012.
- 2.46 In its First Report, the committee recommended that the Government's six monthly performance report be provided to the committee:
- ... no later than three months before the committee is due to report to the Parliament.⁴²
- 2.47 Taking into consideration this timeframe, the Government's Performance Report was due to the committee by the end of September 2012.

Answers to Questions on Notice

- 2.48 In previous reports there has been substantial discussion about the delay in receiving answers to questions taken on notice by the NBN Co and the DBCDE. In addition, the quality of answers has also been commented on.
- 2.49 The committee has also commented on the pressure this has placed on it in regard to the timing of its reporting to Parliament. The committee subsequently made recommendations in this regard and has received comment through the Government's formal responses to reports.

41 NBN Co, *Submission 7.12*, Answer to Question on Notice No. 12.

42 Joint Committee on the National Broadband Network (JCNBN), August 2011, *Review of the Rollout of the National Broadband Network: First Report*, p. 22.

2.50 In an effort to receive answers to questions on notice to supplement the committee's hearing on 30 October 2012, the committee set an eight day timeframe for receiving answers to questions on notice.

2.51 In correspondence regarding the provision of answers to questions on notice from the 30 October 2012 hearing the DBCDE stated:

The Department and NBN Co aim to deliver answers to questions on notice at the earliest opportunity and to the best extent possible will endeavour to meet the Committee's deadline. A number of responses have already been tabled with the Committee, and more will be tabled later tomorrow before the 14 November 2012 deadline.... We understand that the NBN Co will be in a position to provide a further 20 responses over the next several days and the remainder shortly thereafter.

To assist the Committee in preparing its report, NBN Co and the Department have prioritised the questions that are relevant to the performance of the NBN in the review period to June 2013.⁴³

Concluding Comments

Key Performance Indicators

2.52 The tabular representation of actual results achieved for the physical NBN rollout contained in the Shareholder Ministers' performance report is not presented in a format which enables comparison with Corporate Plan targets.

2.53 The committee has previously commented on the type of data that should be included in the Shareholder Ministers' Performance Report to better enable comparison of data across years in line with published NBN rollout targets.

2.54 In particular, the committee reiterates the statements it made in the Third Report that it 'does not find it meaningful to be provided with data on how many premises have been passed or premises made active between periods or years without any kind of target or benchmark on which to compare this data.'

43 Correspondence from the DBCDE dated and received 13 November 2012.

- 2.55 In addition, the NBN Co corporate plan presents targets by financial years (covering the periods from 1 July to 30 June), not in six monthly periods as contained in the Shareholder Ministers' Performance Report.
- 2.56 In respect to this issue, the committee expects high levels of accountability and transparency from an organisation that is responsible for the design and build of Australia's largest ever infrastructure project.
- 2.57 The committee finds that the Performance Report while providing a general overview of the activities associated with the NBN rollout does not easily show which NBN rollout targets have been met over the six month period. The committee has made a recommendation in regard to this finding.

Delay of Commencement of the NBN Rollout

- 2.58 The committee has now on several occasions during the course of its reviews heard the reasons why the commencement of the NBN rollout has been delayed. Although it is stated in the new NBN Co Corporate Plan that the NBN rollout was delayed, and the rollout timeframe has been extended by six months, it is uncertain whether the NBN rollout is still subject to delay, and the extent of the impact of the previous delay.
- 2.59 The ACCC has commented that it was not responsible for any delay to the commencement of the NBN rollout as a result of its consideration of the Telstra SSU. The NBN Co has agreed with comments made by the ACCC in this regard.

NBN Co's Unaudited Financial Results

- 2.60 The Performance Report again contains unaudited financial statements with the only accompanying disclaimer-type statement being 'Unaudited financial statements are presented in the following section. Further information is available in the audited financial statements included in the 2011-12 Annual Report.'⁴⁴
- 2.61 Without an accompanying auditor's statement or accompanying explanatory notes, the accuracy of financial statements provided in the Performance Report and whether the financial statements were prepared in accordance with accounting standards, may be questioned. Where accounting standards are not followed to prepare financial statements implies that without such rigour in the process, there is more likely to be resulting errors.

44 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 27.

- 2.62 The DBCDE's response to the reason for providing unaudited financial statements in the Performance Report is not satisfactory. In particular, the DBCDE's response states that 'the financial statements contained within the Government's progress reports are not subject to the same auditing arrangements as those applied to annual reports.'
- 2.63 To then state in the Performance Report that further information is provided in the NBN Co's Annual Report is unhelpful as the two are not comparable as they were prepared using different methodologies.
- 2.64 Given that the NBN Co Annual report was released before the Performance Report was provided to the committee, there would have been no reason not to include it in the Performance Report.
- 2.65 The committee would prefer to receive audited financial statements so that results are certified and so can be verified, and has recommended this course of action.

Timing of Government's Performance Report

- 2.66 To date, through four reviews, the Government's Performance Report has not reached the committee within the three month period that the committee recommended in its First Report.
- 2.67 One week before the committee's biannual hearing with the NBN Co, originally scheduled for 8 October 2012, the committee had not yet received the Government's Performance Report.
- 2.68 The hearing was subsequently rescheduled from 8 October to 30 October 2012 to accommodate witnesses' schedules. While this timeframe would have provided additional time for the Government's Performance Report to reach the committee, the Performance Report was not received by the committee until 23 October 2012. This is four working days prior to the 30 October 2012 biannual hearing.
- 2.69 Receiving the Government's Performance Report at least three months before it is required to report to the Parliament allows the committee to undertake its oversight role without any initial delay in the review process.
- 2.70 While the committee appreciates receiving the Government's Performance Report ahead of its biannual hearing, it would be preferable for the committee to receive the Performance Report at least one month before the biannual hearing with the NBN Co is scheduled to take place. This would assist the committee in fulfilling its reporting and oversight obligations more uniformly.

Answers to Questions on Notice

- 2.71 Given the short time available for the committee to finalise its report following its rescheduled biannual hearing with the NBN Co and in an effort to receive answers to questions on notice to supplement the committee's evidence, an eight day timeframe for receiving answers to questions on notice was put in place.
- 2.72 The committee appreciates that this timeframe was relatively short and appreciates the efforts of the NBN Co and DBCDE to provide answers to questions on notice within this timeframe.
- 2.73 Receiving answers to questions on notice in this short timeframe has enabled the committee to meet its reporting obligations and provide more up to date information on the NBN rollout to the Parliament and interested citizens.

Recommendation 1

- 2.74 **The committee recommends that the key performance indicator information presented in the Shareholder Ministers' six-monthly National Broadband Network (NBN) Performance Report list and detail: (1) established Business Plan targets and (2) actual results which track the progress of the NBN rollout over each six month period as well as yearly, to enable the comparison of actual physical NBN rollout results with published NBN Co Corporate Plan targets.**

Recommendation 2

- 2.75 **The committee recommends that the Shareholder Ministers' six monthly performance report on the progress of the National Broadband Network rollout include audited financial statements with accompanying explanatory notes, and where it is not possible to provide these in the first instance, that they be forwarded to the Joint Committee on the National Broadband Network when prepared, as an addendum to the Performance Report.**

Recommendation 3

- 2.76 **The committee recommends that subsequent Shareholder Ministers' six monthly performance report on the progress of the National Broadband Network rollout be provided to the committee no less than one month before the scheduled biannual hearing with the Joint Committee on the National Broadband Network.**