



Australian Government

Joint Committee on the National Broadband Network

Review of the Rollout of the National Broadband Network
Fourth Report

Australian Government Response to the Committee's
Fourth Report of 28 February 2013

May 2013

INTRODUCTION

In March 2011, the Parliament established the Joint Committee on the National Broadband Network (the Committee) to enable the ongoing parliamentary scrutiny of all aspects relating to the rollout of the National Broadband Network (NBN). The Committee is required to report to the Parliament on the rollout of the NBN on a six monthly basis until the completion of the project.

The Committee has been asked to provide progress reports on:

- the rollout of the NBN;
- the achievement of take-up targets as set out in NBN Co Limited's (NBN Co) Corporate Plan;
- network rollout performance including service levels and faults;
- the effectiveness of NBN Co in meeting its obligations as set out in its Stakeholder Charter;
- NBN Co's strategy for engaging with consumers and handling complaints;
- NBN Co's risk management processes; and
- any other matter pertaining to the NBN rollout that the Committee considers relevant.

The Committee tabled its first report on the *Review of the Rollout of the National Broadband Network* on 31 August 2011, its second report on 24 November 2011 and its third report on 25 June 2012. The government's responses to the Committee's first, second and third reports were tabled in the Parliament on 1 March 2012, 16 April 2012 and 9 October 2012 respectively.

On 28 February 2013, the Committee tabled its fourth report, entitled *Review of the Rollout of the National Broadband Network: Fourth Report*. The Committee's fourth report was informed by public hearings and public consultation which attracted 28 submissions and three exhibits. The report made eight recommendations ranging across: the provision of information on the NBN including key performance data on forecasts and actual results; reporting arrangements that facilitate earlier submission of the government's six monthly performance report on the progress of the NBN rollout and the inclusion of audited financial statements; the potential of NBN Co's fixed wireless network to improve mobile telecommunications, especially for regional and remote Australia; initiatives to address the operation of medical alarms over the NBN; private equity funding and Telstra workforce issues.

BACKGROUND

The NBN is a telecommunications network that will provide access to high-speed broadband to 100 per cent of Australian premises using a combination of fibre to the premises, fixed-wireless and satellite technologies. NBN Co's objective is to provide 93 per cent of premises with access to a high-speed fibre network capable of providing broadband speeds of up to one gigabit per second (Gbps) download and 400 megabits per second (Mbps) upload. Seven per cent of premises will be served by a combination of next-generation fixed-wireless and satellite technologies providing peak speeds of up to 25 Mbps download and 5 Mbps upload.

The NBN will be Australia's first national wholesale, open access broadband network offering equivalent terms and conditions to all access seekers or service providers. The Australian Government has established NBN Co to design, build and operate the new high-speed NBN. NBN Co will roll out the network and sell wholesale services to internet and telephone service providers. In turn service providers will offer retail services to consumers. This is a significant structural change to Australia's telecommunications industry, aimed at encouraging vibrant retail competition.

On 7 March 2012, the Definitive Agreements between NBN Co and Telstra came into force. The Agreements pave the way for a faster, cheaper and more efficient rollout of the NBN. They include the reuse of suitable Telstra infrastructure, avoiding infrastructure duplication and for Telstra to progressively structurally separate by decommissioning its copper network during the NBN rollout. The Definitive Agreements will mean less disruption to communities, less use of overhead cables and faster access to the NBN for Australians.

Planning and construction of the NBN is well underway. On 11 January 2013, NBN Co announced that it had exceeded its target to have construction commenced or completed in areas covering 758,000 premises before the end of 2012. The total number of premises in areas where construction had commenced or completed was 784,592 by year end.

On 21 March 2013, NBN Co reported that it has updated its short-term fibre rollout timeline expecting to pass 341,000 premises with fibre about three months later than the June 2013 target, with between 190,000 and 220,000 premises now forecast to be passed by fibre by end June 2013. NBN Co will also assume direct responsibility for the Northern Territory fibre rollout.

NBN Co has advised that this short-term issue will not affect the long-term delivery of the NBN or the overall cost of the project. NBN Co remains on track to deliver fast, affordable and reliable broadband to every Australian by 2021 as set out in NBN Co's 2012-15 Corporate Plan.

On 5 May 2013 NBN Co released an update to its indicative three year fibre rollout plan, which will see NBN construction either commence or be completed by mid-2016 for more than 4.8 million homes, businesses, schools and hospitals across Australia. The three year rollout plan will be updated each year.

By 30 June 2016, the numbers of homes, businesses, schools and hospitals that will see construction commence or be complete include:

- An additional 406,100 premises in New South Wales, bringing the total number of premises with construction commenced or complete to more than 1,416,800;

- An additional 303,000 premises in Victoria, bringing the total number of premises with construction commenced or complete to more than 994,600;
- An additional 255,700 premises in Queensland, bringing the total number of premises with construction commenced or complete to more than 934,300;
- An additional 181,500 premises in Western Australia, bringing the total number of premises with construction commenced or complete to more than 610,700;
- An additional 117,700 premises in South Australia, bringing the total number of premises with construction commenced or complete to more than 445,000;
- An additional 45,000 premises in the Australian Capital Territory, bringing the total number of premises with construction commenced or complete to more than 180,300;
- In the Northern Territory, the rollout of the NBN will be complete for more than 65,400 premises by the end of 2015;
- In Tasmania, the rollout of the NBN will be complete for more than 208,400 homes and businesses by the end of 2015; and
- More than 7,303 schools, 663 hospitals, 120 university campuses and 1,415 aged care facilities across the country.

Construction of the national fibre network rollout will begin between 1 April 2013 and 30 June 2016 in these locations, under NBN Co's three year rollout plan.

AUSTRALIAN GOVERNMENT RESPONSE

The government has considered the Committee's Fourth Report and provides the following response to the recommendations.

Performance Reporting

Recommendation 1

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.

The government supports this recommendation.

The government and NBN Co are committed to publishing as much information as possible on the NBN rollout. Six monthly results and Corporate Plan targets have been included in the past government reports to the Committee and now that NBN Co has reached volume rollout, NBN Co is considering what additional information can be provided on an ongoing basis. The government's six-monthly report to the Committee is based on information from NBN Co and provides:

- a summary of the key milestones achieved by the company, including details around awarded contracts and their value;
- year to date financial reports, comprising profit and loss statements, balance sheets and a consolidated statement of cash flows; and
- measurement against agreed key performance indicators for the Company, including, actual results for construction commenced or completed, premises passed/covered, and premises activated for brownfields, new developments and satellite/fixed wireless.

Key Performance Indicators (KPIs) to date have provided detail on the actual results for the six months to June and December and have been presented in tables and graphs to facilitate comparability of information over time. The KPI reporting framework has been broadly consistent across each of the three progress reports provided to the Committee.

NBN Co's 2012-15 Corporate Plan, released on 8 August 2012, includes NBN rollout targets for premises passed and premises activated for brownfields, new developments and satellite/fixed wireless. The 2012-15 Corporate Plan targets are published on financial year basis and were included in the government's third progress report on the NBN rollout reflecting NBN Co's performance up to 30 June 2012. These targets are under review in the 2013-16 Corporate Plan and will be included in the next six-monthly report to the Committee for the reporting period up to 30 June 2013. As reported at the Committee's 19 April 2013 hearing, NBN Co's underlying business case around the NBN rollout remains fundamentally unchanged from that outlined in the 2012-15 Corporate Plan.

The government supports the provision of quality information to the Committee to inform its review of the NBN rollout. In addition to the data contained in the government's reports to the Committee, NBN Co provides updated deployment metrics on its website and through other parliamentary reporting processes. Further information on the progress of the rollout, for example the number of premises expected to be ready for service in certain areas, can be found on NBN Co's website at www.nbnco.com.au

Recommendation 2

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.

The government notes this recommendation.

As a publicly-owned entity, NBN Co maintains regular reporting to the Parliament through Parliamentary Committees including the Joint Committee on the National Broadband Network, Senate Committees and audit by the Auditor General. Separately, it reports regularly to Shareholder Ministers.

The government has undertaken to provide the Committee with an update on the status of the NBN rollout based on information provided by NBN Co covering the six months to the end of June and the end of December. These reports contain unaudited financial statements.

Undertaking an audit as requested by the Committee, would be a departure from both Australian commercial practice and from the long-standing reporting requirements that successive governments have established for Government Business Enterprises under the existing frameworks.

As part of the annual report process, NBN Co prepares financial statements and explanatory notes that are audited, or reported on, by the Auditor-General. The NBN Co annual report is tabled in the Parliament each year. Where the audited financial statements are not available to be appended to the government's six-monthly report for June, they will be forwarded to the Committee as requested.

NBN Co will undertake reviews of half yearly financial statements consistent with Australian corporate and commercial practice.

Recommendation 3

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.

The government supports this recommendation in part.

The government's response to the Committee's first report supported the recommendation for NBN Co and the Department of Broadband, Communications and the Digital Economy (the department) to provide a six-monthly report on the progress of the rollout of the NBN using established KPI and performance measures, no later than three months before the Committee is due to report to the Parliament i.e. end March and end September.

Shareholder Ministers recognise the importance of providing quality information to the Committee to inform its review of the NBN rollout and that is why the government, in consultation with NBN Co and the Committee, has established a reporting framework which provides for the development of six monthly progress reports on the NBN and the necessary due diligence processes of NBN Co and the government.

The Committee's first report on the Review of the NBN rollout included advice on reporting intervals and key performance measures and indicators. In terms of the timing of receiving NBN rollout performance information and KPIs, the Committee implemented an amendment to its original resolution of appointment to allow it to report to the Parliament biannually in June and December. This has allowed for NBN Co and shareholder departments to prepare reports for the Committee in line with more streamlined reporting timeframes and following appropriate review and analysis by government.

The government is unable to determine the practical effect of this recommendation at this stage as no hearing date has been set for future hearings of the Committee. The government will endeavour to meet the Committee's requested timeframe for the submission of the six monthly progress reports on the NBN subject to meeting due diligence requirements.

Regional and Remote Issues

Recommendation 4

The committee recommends that the Government support the NBN Co to continue to:

- explore the synergies between fixed and mobile telecommunications networks with a view to using the National Broadband Network to improve mobile telecommunications; and
- facilitate private providers use of NBN Co infrastructure to provide and improve mobile telephone services and coverage across Australia, particularly in regional and remote areas.

The government supports this recommendation and notes that progress has already been made to leverage NBN Co wireless infrastructure to improve mobile coverage in regional areas.

The government understands the importance of mobile telephony to Australians. More than ever, people are using mobile telephony to communicate and participate in the digital economy. Since the privatisation of Telstra, the government does not own a mobile carrier and therefore is not able to direct where Australia's mobile phone network should be extended. These are commercial decisions made by private companies, responsible to their shareholders. The government and NBN Co however are working with the carriers to encourage them to expand the quality and extent of their coverage.

The 2011-12 Regional Telecommunications Independent Review Committee found that regional stakeholders see the NBN as the most significant government commitment to improving telecommunications in regional Australia. The NBN will see fibre-to-the premises

technology rolled out to more than 70 per cent of homes and businesses in non-metropolitan Australia, and a combination of next generation fixed-wireless and satellite technologies to the remaining premises.

The government supported the launch of NBN Co's Interim Satellite Service in July 2011 to provide eligible rural and regional Australians with immediate access to enhanced broadband services ahead of NBN Co's long-term satellite service in 2015. Over 30 000 customers have already taken up this service; a clear indication of the strong unmet demand for affordable and reliable broadband services in regional Australia.

The rollout of the NBN will see the construction of new fixed wireless towers that are designed to provide broadband services to certain locations across less populated areas of Australia. The construction of the NBN fixed wireless tower network provides mobile carriers with an opportunity to negotiate access to these towers and improve their mobile phone coverage in locations where NBN Co is delivering fixed wireless services.

Decisions about whether to seek access to NBN Co's fixed-wireless tower network infrastructure are ultimately commercial decisions for mobile phone carriers. NBN Co has recently entered into agreements with Optus and Telstra to share tower infrastructure. This is a positive development towards improved mobile coverage in regional and rural Australia.

In addition, NBN Co has negotiated with carriers to secure further mutually beneficial arrangements which involve NBN Co accessing or constructing towers on sites that have been set aside for future development. This would apply when a carrier has a site for which it has all or some of the necessary approvals, but are not planning to build a tower in the near future. If such a site is considered appropriate for the fixed wireless network, NBN Co will initiate the construction process. This has the potential of seeing the networks expand at a quicker rate than they otherwise would.

Additional Issues

Recommendation 5

The committee recommends that the Department of Broadband, Communications and the Digital Economy (DBCDE) and NBN Co continue to work with the Personal Emergency Response Services Association, the Communications Alliance and retail service providers to implement a range of initiatives to address concerns with the operation of medical alarms for aged and at-risk persons under the National Broadband Network rollout. This process should be in consultation with the Australian Communications and Media Authority, with the DBCDE to report back to the committee on specific progress in this area.

The government supports this recommendation.

During 2011 NBN Co held complex services workshops with relevant industry stakeholders, including the Personal Emergency Response Services Association (PERSA) and Tunstall Healthcare, to assist in the design and development of the User Network Interface Voice (UNI-V) product so that it is fit for purpose to support a range of legacy services, including medical alarms.

NBN Co met with PERSA in September 2012 to discuss how medical alarms will be supported over the NBN. Analogue medical alarms will be fully supported on the NBN via the UNI-V port, which is in turn supported by a battery backup.

Many Australians are already using medical alarms and other personal response services over the NBN. For example, the Peninsula Grange aged care facility in Victoria is connected to the NBN and has a fully functional medical alarm system through the UNI-V port.

In addition to supporting legacy alarms, Internet Protocol (IP) based medical alarms will also be supported over the UNI-D port. NBN Co is currently developing battery backup functionality for the UNI-D and once this is implemented, IP-based alarms will be fully functional over the NBN.

NBN Co is also working to extend the run time of the battery for both the UNI-V and UNI-D ports. Both ports have Traffic Class 1 functionality, meaning that the highest traffic priority over the network is available for medical alarms.

The department continues to engage with the Communications Alliance and PERSA, NBN Co, retail service providers and other stakeholders to ensure a smooth transition of medical alarms to the NBN. The department has encouraged Communications Alliance and its members to work closely with NBN Co to ensure legacy services continue to be supported on the NBN and for Communications Alliance members to provide necessary assistance to end users to enable them to make accurate and informed decisions regarding their telecommunications needs.

In December 2012 a workshop was held with the department, Communications Alliance, PERSA, retail service providers, the Australian Communications and Media Authority, NBN Co and other key stakeholders, including the Department of Veterans' Affairs. It was agreed at the workshop that a working group be established to closely examine the implications of the transition of 'over-the-top' (OTT) services (such as security alarm services, visual monitoring services and energy management services) that currently operate on the copper telephone network to the NBN fibre-based network.

The NBN OTT Services Transition (NOST) working group met for the first time in February 2013 and agreed to establish a sub-committee focussing on developing a communications plan around the transition of medical alarms to the NBN. The sub-committee met for the first time in early April 2013.

The NOST working group has a number of items in progress, including the development and implementation of a responsibilities matrix. This identifies the parties responsible for key tasks such as developing device discovery and network testing capabilities, and producing installation standards to ensure that the wiring in end user premises can continue to support medical alarms and other personal emergency response services.

Similarly, members of the sub-group have developed a project plan that will support end user education. This plan identifies the main stakeholder groups, anticipates their key information needs and questions, and outlines the necessary documentation that should be distributed. Both the working group and communications sub-group will continue to meet on a monthly basis to ensure the needs of medical alarm users are met and facilitate a smooth transition of these services from the copper to fibre networks.

The department will update the Committee on progress at future hearings.

Private Equity Engagement and Workforce Issues

Recommendation 6

The committee recommends that the Government:

- seek to gauge investor interest in the National Broadband Network; and
- investigate the optimum capital structure for the NBN Co.

The government does not support this recommendation at this stage.

The existing policy framework provides for a capital structure that supports engagement with the private sector when NBN Co's cash flows are sufficient to support private sector debt without explicit government support. Prior to this, as set out in the Statement of Expectations, NBN Co will be funded with government equity.

The government notes that the NBN Co 2012-15 Corporate Plan contains an assumption of debt-raising. It is assumed that peak debt funding equivalent to 31 per cent of total funding required over the period FY2011 to FY2021 would be raised. NBN Co assumes it will commence raising debt from FY2015 onwards¹. Peak debt funding is forecast at \$13.7 billion in FY2021, with initial debt-raising assumed in FY2015. Average issuance per annum would amount to \$2 billion over the 7 year period (FY2015 to FY2021 inclusive)².

Private equity funding prior to the completion of the NBN rollout was explicitly advised against in the NBN Implementation Study³. This is for a number of reasons.

The government has a 100 per cent coverage objective for NBN Co, which includes supplying regional and remote areas on the basis of uniform national wholesale pricing. The government is also committed to the affordability of NBN services for all Australians. This means that the government is prepared to accept a lower rate of return than private equity may be satisfied with—approximately 7 per cent, sufficient to cover the finance costs with a small risk premium.

In such circumstances, a mixture of public and private ownership prior to the completion of the NBN rollout in June 2021 may create conflict that would impose restrictions on the government's flexibility to achieve these policy goals. In seeking to reduce risk, private sector investors may pressure the government to lock in policy choices that could be more advantageously made in the future. As former DBCDE Secretary, Peter Harris, noted at the 26 June 2012 hearing of the Joint Committee:

“The government clearly has a policy objective in mind with the NBN. It has a detailed set of instructions that accompany the statement of expectations and a series of policy decisions and the parliament has a set of instructions for the company, with legislation. If a private investor convinced itself that it was prepared to take the risk and accept what is impliedly a low rate of return for long-term strategic gain purposes and did want to make an investment then the company, first, and then the government as 100 per cent owner, second, would both need to satisfy themselves that this owner would not get in the way of, if you like, the statement of expectations and parliament's own intentions as expressed in legislation.”⁴

¹ NBN Co 2012-15 Corporate Plan, page 16

² NBN Co 2012-15 Corporate Plan, page 80

³ National Broadband Network Implementation Study, 2010, page 41

⁴ Joint Committee on the National Broadband Network, Hansard 26 June 2012, page 10

For these reasons, at this stage, the government is the most natural owner of the risk versus return trade-off prior to the completion of the NBN rollout⁵. The government remains committed to the sale of NBN Co at an appropriate time. The existing NBN Co legislative framework sets out the preconditions in which the Commonwealth can dispose of or transfer shares in NBN Co. Separately, there are provisions placing restrictions on the nature of capital that can be applied in NBN Co.

By the end of the rollout in June 2021, NBN Co will have demonstrated a strong track record in the delivery of its key objectives and established investor confidence in both the rollout and take up of this critical infrastructure. Once fully established, NBN Co will be a profitable and attractive business that could benefit from private sector ownership.

Following completion of the rollout the government will consider the optimum capital structure for the Company. The benefits of sale will be fully explored before a sale takes place.

Recommendation 7

The committee recommends that, in providing an annual statement to the committee on the progress of the Telstra Retraining Funding Deed (RFD), the Department of Broadband, Communications and the Digital Economy (DBCDE) include in this information an update on:

- ongoing company retention rates for employees in the Automatically Eligible Workgroup, retrained under the RFD;
- the current numbers and roles of employees in the other eligible workgroup under the RFD and an overview of the current reasons for eligibility or exclusion in terms of this group.

The government supports this recommendation in part.

In response to the Committee's third report on the *Review of the Rollout of the NBN*, the government agreed to include information about the progress of the Telstra Retraining Funding Deed in an annual report. While information will be sought from Telstra with respect to training opportunities for potentially eligible employees, it is expected that the report will focus on training outcomes achieved and direct and indirect employment benefits of the NBN.

The government notes that data on retention rates may prove misleading as a proxy indicator of the effectiveness of Telstra's Retraining Funding Deed, given one of its objectives is to train workers to assist in the delivery of the NBN. Accordingly, a retrained staff member who subsequently leaves Telstra for employment with one of NBN Co's construction partners would be in line with the Deed's objectives, but would negatively impact on retention rates. The government will consider alternative indicators that could measure the effectiveness of Telstra's Retraining Funding Deed and provide updates on an annual basis.

⁵ National Broadband Network Implementation Study, 2010, page 42

Recommendation 8

The committee recommends that, in providing an annual statement to the committee outlining the major areas of emerging National Broadband Network (NBN) workforce demand and training need, the Department of Broadband, Communications and the Digital Economy (DBCDE) include in this information a more detailed report on:

- the workforce development strategy supporting the NBN rollout, including current workforce modelling and outcomes from work with training organisations and industry skills boards, to identify skills gaps in this area and develop training programs;
- how the development and implementation of this overall workforce strategy is being coordinated.

The government supports this recommendation.

As outlined in the government's response to the Committee's third report on the *Review of the Rollout of the NBN*, NBN Co has developed and is implementing an overall workforce development strategy that involves:

- identifying the gap between supply and demand of appropriately skilled resources;
- determining relevant training programs and qualifications, providers, and funding to support skills development; and
- a skills assurance program to confirm workers have the necessary regulated and required skills to perform work.

The workforce development strategy also recognises the dispersed nature of the rollout which will enable it to leverage workers from both regional and metropolitan areas.

In providing an annual statement to the Committee, the department will provide an overview of this workforce development strategy and how the strategy is being implemented. In the interim, information can be found at NBN Co's website (www.nbnco.com.au) which provides an outline of the workforce development strategy activities.