

Senate Finance and Public Administration Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
ADDITIONAL BUDGET ESTIMATES 2011-2012

Finance and Deregulation Portfolio

Department/Agency: Department of Finance and Deregulation

Outcome/Program: 2/ 2.1

Topic: NBN Co – ‘red flag’

Senator: Ryan

Question reference number: F20

Type of question: Written

Date set by the committee for the return of answer: Friday, 30 March 2012

Number of pages: 2

Question:

- a) Minister in your reply to Mr Robb's letter to you regarding the NBN, you did not address the issue of "red flag" mechanisms he raised –nor did you say if as shareholder minister you have veto authority over any potentially bad decisions that may not present value to taxpayers. Can you clarify what your veto powers as minister are?
- b) Senator Wong last year it was reported by the Financial review (find article) that NBN Co had already entered into contracts worth more than \$7 billion, albeit over a period out to 10 years, for the benefit of the committee could you provide an update on where that figure currently sits?
- c) The issue of ‘red flag’ mechanisms is a very important one, do you have a means to be alerted to procurement activities?
- d) I note the company failed to meet its roll out projections in 2011 and we have seen procurement delays, this would inevitably impact on the equity requirements, would it not?
- e) But clearly while you are borrowing money for equity and the NBN Co is running at a loss as it currently is, it is fair to say the project for at least the next three or four years will be quite a burden on government net debt is it not?

Answer:

- a) NBN Co is a Corporations Act company that is prescribed as a Government Business Enterprise (GBE). Consistent with the *Corporations Act 2001* and the Commonwealth GBE Governance and Oversight Guidelines (2011) (GBE Guidelines), NBN Co's Board is responsible for the performance of the GBE and are fully accountable to Shareholder Ministers for their performance.

NBN Co is subject to a high level of transparency and accountability regarding its activity. NBN Co's overall corporate governance framework is set out in the *Commonwealth Authorities and Companies Act 1997* (CAC Act) complemented by GBE Guidelines, its constitution and the *Corporations Act 2001*.

Under the CAC Act and GBE Guidelines, NBN Co is required to:

- prepare an annual Corporate Plan covering a period of at least three years;
- prepare quarterly progress reports against the Corporate Plan;
- prepare an Annual Report;
- notify responsible Ministers of significant events and the operations of the company and its subsidiaries including major procurement activities; and
- prepare an annual Statement of Corporate Intent.

The Government also works closely with NBN Co when developing their Corporate Plans and Quarterly Reports to ensure that objectives are met. In addition, the Government has released a Statement of Expectations, which sets out the Government's position on how the NBN should be implemented and NBN Co is required to rollout the network in line with the Statement of Expectations.

NBN Co is required to notify Shareholder Ministers of significant events and the operations of the company and its subsidiaries, similar to the continuous disclosure arrangements of the Australian Stock Exchange listing rules. Under these requirements, NBN Co, like any GBE, regularly reports to Shareholder Ministers on its progress. In particular, NBN Co provides advice on a regular basis on the progress of the NBN rollout, signing of key contracts, tracking of performance and flagging any issues at an early stage.

- b) As of 28 February 2012, NBN Co had entered into contracts worth \$8.9 billion.
- c) Refer to the answer provided in response to a) above.
- d) NBN Co's equity requirements will be updated in its next Corporate Plan.
- e) Please refer to Mr David Tune's response on page 62 of the Finance and Public Administration Legislation Committee Hansard, dated 14 February 2012, which said:
"That will depend on whether this equity profile that we have been talking about earlier changes or not. To the extent that we have an equity profile at the moment, that is already factored into the calculations about public debt interest and net debt. It is only if that changes that we will have another situation".