

Department of Finance

Response to Question on Notice

JOINT STANDING COMMITTEE ON THE NATIONAL BROADBAND NETWORK

Inquiry into the business case for the National Broadband Network and the experiences of small businesses

Hearing of Friday, 26 June 2020

SPECIFIC QUESTIONS ON NOTICE

Question 1

Mr Jaggers: NBN approached the market in December last year to secure at least \$2 billion for the completion of the rollout of the network. Essentially, the Australian government's peak commitment through equity and debt for NBN was \$49 billion. NBN sought an additional \$2 billion from private markets to assist in the completion of the rollout of the network. It started that process in December 2019. The market response was very good in terms of debt providers, banks and the like offering debt facilities at appropriate terms for NBN. Its board took a decision that it would create facilities for up to \$6.1 billion, which it did. That funding hasn't been drawn down, or certainly not all of that funding has been drawn down—in fact, I don't think any has been drawn down yet. But it has the flexibility now to use that \$2 billion for the completion of the network. Then it will retain a portion of that extra debt facility for working capital for flexibility, and then it will consider the uses of the remaining capital if it needs it. If there are appropriate capital investments that are required for NBN, it has that flexibility either to bring some capital investments forward or to generate new business opportunities. What we would expect is—

Mr WATTS: So when did NBN Co first raise the desire to take on more than \$2 billion in private debt with the government?

Mr Jaggers: I'd have to take that on notice in terms of when it was first raised with us. But there would have been conversations with the shareholder departments while it was working with the markets around the debt packages. We would have been trying to work with NBN during that process so that we were in a position to advise our shareholder ministers on NBN's plans. Also, at some point NBN would have put its proposal formally to the ministers, but we would have understood what was being proposed before then. I might ask Mr Atkin if he has anything else to add to that at this point.

Response

Shareholder Departments began working with NBN Co on its approach to debt markets for the \$2.0 billion from September 2019, following the finalisation of the 2019-20 Corporate Plan in August 2019. As part of these discussions, NBN Co anticipated that there may be an over-subscribed response from the bank market.

NBN Co formally notified Shareholder Ministers on 12 November 2019 of its intention to release a Request for Proposal to the market to seek \$2.0 billion in bank financing, consistent with the 2019-20 Corporate Plan.

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Question 2

Mr WATTS: So what new working capital requirements have arisen between now and the last corporate plan issued in August 2019?

Mr Atkin: I'm not aware that there's explicitly a new requirement for working capital other than what was identified as part of the recent debt raising that took place.

Mr WATTS: So this private debt was always going to be acquired primarily to working capital?

Mr Jagers: I think the intention had always been to apply the \$2 billion to the completion of the rollout and, in terms of the rest of the flexibility that's created by the \$6.1 billion, they've indicated that \$1.5 billion would be reserved for working capital and so they could have flexibility to draw down on that, particularly for things like, as Mr Atkin mentioned, the Telstra agreements. There are payments that are required to be made periodically and so having access to a working capital facility helps NBN to meet those cash flows at the time that they're needed. It's always been the case that they've needed working capital but now, as the equity has been put into the company and the Commonwealth loan's been put into the company, the Commonwealth contribution of \$49 billion has settled as the last bit of the loan is drawn out over the next few weeks—few months; just clarifying with Mr Atkin. That working capital facility will help them to meet those peaks and troughs in spending. The extent to which that needs to be drawn down, I'm not aware of. I'd have to take that on notice and can maybe come back to you with a bit more detail.

...

Mr WATTS: Were NBN Co's working-capital requirements fully accounted for in the previous corporate plan? I can't see the \$1.5 billion reservation for working capital in the last corporate plan.

Mr Atkin: I'm not aware that working-capital requirements are explicitly outlined in the corporate plan.

Ms Hall: I think we'll have to take that question on notice. I don't think we have that detail to hand today.

Mr WATTS: How would NBN Co have managed the working-capital constraints that have been described without the additional debt facility?

Mr Jagers: We might need to take that on notice. I'm sure we can provide you an answer to that. My understanding—and we'll check this on notice—is that NBN has always had its own working-capital arrangements that it's drawn upon from time to time. That's just how a business of that size and nature would usually operate. But we'll come back to you on the specifics of it. They wouldn't normally be outlined in specific terms in the corporate plan, but there's certainly always been the need to manage the peaks and troughs and cash flow in the business. So there's always been that need to address those peaks, particularly at the time when those Telstra payments are due. We'll come back to you on that in terms of advice about how that's been managed in the past.

Response

NBN Co's 2018-19 Annual Report outlines that it has access to a short-term working capital facility and plans to utilise this in the normal course of business (page 132). NBN Co's forecast interest and working capital is set out on page 48 of the 2019-20 Corporate Plan. NBN Co's working capital requirements are assessed and forecast annually through the corporate planning process.

The \$1.5 billion of private debt identified for working capital as part of NBN Co's recent debt raising will provide the company with added flexibility and support NBN Co's long-term capital management strategy.

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SPECIFIC QUESTIONS ON NOTICE

Question 3

Mrs PHILLIPS: I have some questions in relation to dividends. Can you confirm that, in the current NBN corporate plan, NBN is projected to begin making dividend payments in 2032?

Mr Atkin: Is there a reference you can point us to in the corporate plan?

Mrs PHILLIPS: I don't have the reference right here.

Ms Carroll: Can I clarify, while that question in relation to dividends is being answered, in terms of the valuation of NBN, it's not necessarily a market valuation but what the fair value is of NBN to be recorded in financial statements.

Ms TEMPLEMAN: We might come back to that when these questions are done.

Mr Jaggers: I think in the corporate plan, and certainly in the annual report from 2019, NBN confirmed that no dividends have been paid or declared since the group was established. In terms of looking forward—I just don't have that reference in front of me, I'm sorry. I can probably come back to you on that fairly quickly.

Mrs PHILLIPS: Given NBN is forecast to be cash flow positive into 2023, why is it another 10 years until it is projected to pay a dividend?

Mr Jaggers: We might need to come back to you on explanations around the dividend policy. Certainly there's no expectation of dividends being paid under the current corporate planning period—the four years of the corporate plan. In terms of the forward projection of dividends, that will obviously be a matter that needs to be reviewed in every corporate plan, so there will be an estimate at a point in time that will be reviewed. NBN will have substantial debt once it becomes cash flow positive. Certainly in its planning process it would have envisaged paying down debt as a key priority. But I might take on notice the question about why there is that gap and come back to you because, as I said, I couldn't quite find that reference to when the dividends start being paid. So I wouldn't mind just checking the facts and coming back to you with a comprehensive answer on that.

Response

The 2019-20 Corporate Plan does not state that dividend payments will be made from 2032.

The capital structure of the business is reviewed annually as part of the corporate planning process, and future dividend policy and proposed debt repayments are considered in that context, and reported over the four year planning period.