Australian Government

Department of Communications and the Arts

Response to Question on Notice

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

JCPAA Inquiry into Commonwealth Procurement: Audit Report No.12 (2017-18)

Management of the Contract for Telephone Universal Service Obligations

Department of Communications and the Arts

GENERAL COMMENTS

Not applicable

SPECIFIC QUESTIONS ON NOTICE

Question on Notice at Hearing 14 February 2018
The question goes to Vodafone's submission, which I presume you have had a chance to look at. If we can receive the department's response to Vodafone's submission that the ANAO's findings raise 'serious questions of transparency, accountability, efficiency and controls' and on page 2, 'the payments under the TUSPO are excessive relative to the service that Telstra has been considered to perform and Telstra appears to be generating a profit at the expense of taxpayers and TUSO levy payers'.

Response

The Department of Communications and the Arts notes Vodafone's concerns about the current universal service obligation (USO) arrangements. In 2016-17, Vodafone contributed $14.747 million to the Telecommunications Industry Levy (TIL). However the Department considers the USO arrangements need to be considered in context and with regard to the important community service objectives they are directed at achieving.

The current arrangements, and particularly the Telecommunications USO Performance Agreement (TUSOPA), were put in place in 2012 by the then Government. The arrangements were directed at providing ongoing certainty in relation to the provision of standard telephone and payphone services across Australia, but particularly in areas outside the fixed line footprint of the National Broadband Network (NBN). The provision of these services outside the NBN fixed line footprint is specifically supported by the obligation on

Telstra to continue to maintain its fixed line copper network (the copper continuity obligation or CCO). The arrangements deliver these outcomes on a national basis.

The USO is a long-standing consumer safeguard intended to ensure people in Australia have access to telecommunications services on an equitable basis. It is accepted that losses are incurred in providing these services in rural and remote Australia and as such there should be payment to the provider of those services to offset the cost.

Vodafone has specifically submitted to the JCPAA that, as a result of Telstra 'shut[ting] down around half of the copper and payphone services it is supposed to maintain' under the USO contract, 'at least 150 million dollars a year' is being wasted.

Telstra receives $270 million per annum to fulfil the standard telephone and payphone service requirements under the USO. This is funded jointly by the Commonwealth and industry through the TIL. The Commonwealth also pays GST on the $270 million, bringing the total payment to $297 million. It is not wholly accurate therefore to suggest Telstra receives $300 million in USO payments. It is also worth noting that the payment is not indexed and is declining in real terms each year.

The basis for Vodafone's claim that services provided under the TUSOPA have halved is not clear. There has been a decline in the number of USO services. However, we estimate the reductions since the TUSOPA commenced on 1 July 2012 to be a 22 per cent fall in Telstra's fixed line retail standard telephone services and a 9 per cent fall in payphones. In regard to payphone services, while there has been a decrease in overall numbers of payphones, there has been an increase in the functionality of new payphones. For example, many new payphones are equipped with USB charging points and mobile integration points.

More significantly, as explained to the Committee at the hearing and noted above, the funding pays for the delivery of a national solution for voice and payphone services. The payment is not calculated on a per premises or per payphones basis. Telstra is required to continue to offer services to all Australian premises on request, including over the NBN in urban areas, and over its copper network in regional and remote areas, where it is feasible to do so. Despite declining service numbers, Telstra still needs to maintain network assets, particularly where the copper continuity obligations applies, and other capabilities to deliver services nationally. This means Telstra still faces significant network costs, but the decline in the number of services means it is also facing declining revenue to offset these costs.

Notwithstanding these points, the current Government has clearly indicated it considers there could be a better system for delivering voice (and broadband) services and announced the development of a new Universal Service Guarantee (USG). The USG will seek to leverage the significant Government investment in the NBN and extensive private sector investment in mobile coverage and mobile competition, and will be underpinned by the statutory infrastructure provider (SIP) legislation currently before Parliament. A key criterion for the USG is that it needs to be more cost-effective than the current arrangements. Because of the importance for access to telephone services for people in regional, rural and remote Australia, the Government has indicated it will keep the current USO arrangements in place until it is clear there are better alternative arrangements.

Australian Government

Department of Communications and the Arts

Response to Question on Notice

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

JCPAA Inquiry into Commonwealth Procurement: Audit Report No.12 (2017-18)

Management of the Contract for Telephone Universal Service Obligations

Department of Communications and the Arts

GENERAL COMMENTS

Not applicable

SPECIFIC QUESTIONS ON NOTICE

Question # 2
In Audit Report No. 12 (2017-18), *Management of the Contract for Telephone Universal Service Obligations*, the Australian National Audit Office (ANAO) made two recommendations to the Department of Communications and the Arts, with the ANAO report noting that the department 'did not state whether it agreed or disagreed' with the recommendations (Audit Report No.12, p. 11). For the record, could the Department of Communications and the Arts clarify its position on these recommendations-that is, whether the department agrees or disagrees with these recommendations, and why it did not clearly state its position at the time the audit was published?

Response

The Department provided an overarching response to the ANAO's report as a whole. The Department acknowledges that its response did not state whether it agreed or disagreed with each of the individual recommendations. However, the Department considered that its response made clear which parts of the ANAO's recommendations the Department supported, where measures that responded to the ANAO's recommendations had either been completed or were in train, and where it considered the ANAO had drawn a number of conclusions that did not sufficiently take into account the policy context in which the contract was developed or how network infrastructure is costs or managed.

For clarity, we provide the following:

Recommendation 1(a). Agree in principle, on the basis that as acknowledged in the Department's response there is always opportunity to improve management of complex contracts such as the TUSOPA and that work to do so is well advanced, but that the scope for improvement is constrained by the history and design of the TUSOPA. As noted in its response, the Department considers that the ANAO drew a number of conclusions that did not sufficiently take account of this policy context, nor demonstrate an understanding of how network infrastructure is costed or managed.

Recommendation 1(b). Agree, noting that the Department is already leading work to develop options regarding future delivery of USO services and that in undertaking this work a guiding principle is to ensure an acceptable cost-effective alternative is available before existing arrangements are changed.

Recommendation 2. Agree, consistent with the response to Recommendation 1(a) above.