



Auditor-General for Australia



28 March 2018

The Hon Sussan Ley MP
Chair
Joint Standing Committee on the National Broadband Network
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Ms Ley

Inquiry into the business case for the National Broadband Network

The Australian National Audit Office (ANAO) published Audit Report No. 12 2017 -18 [*Management of the Contract for Telephone Universal Service Obligations*](#) that you may find relevant to the Joint Standing Committee on the National Broadband Network Inquiry into the business case for the National Broadband Network:

Information about what the audit assessed, concluded and recommended is attached. The audit report is available online at www.anao.gov.au.

Should the Committee require further information in relation to these matters, my office would be pleased to provide you with a briefing at a time convenient to you or appear as a witness at a hearing. To arrange a briefing, please contact our External Relations area at external.relations@anao.gov.au .

Yours sincerely

Grant Hehir
Auditor-General

Report No. 12 of 2017–18, *Management of the Contract for Telephone Universal Service Obligations* assessed the effectiveness of the Department of Communications and the Arts' contract management of selected telephone universal service obligations.

The audit concluded that the TUSOPA supports the achievement of the stated universal service obligation policy objective of providing reasonable access to standard telephone services and payphones on an equitable basis to all Australians—specifically by establishing a contract with Telstra to deliver basic voice telephony services for a period of 20 years. In addition to the stated policy objective, the TUSOPA also played an important role in securing Telstra's involvement in the rollout of the National Broadband Network (NBN).

However, key aspects of the TUSOPA do not reflect value for money principles. In particular, the contract's term of 20 years with a fixed annual fee based on 2009–10 costs does not reflect the demonstrated decline in demand for standard telephone and payphone services over the relevant period.⁵ Further the TUSOPA limits flexibility in relation to how standard telephone services can be delivered in areas outside the NBN fixed line network.

The annual fixed payment of \$297 million for standard telephone and payphone services provided under the TUSOPA is consistent with external advice commissioned by the Department in 2011. However there is no evidence that this advice was designed to provide guidance on Telstra's likely costs to deliver the USO over the life of the contract, and therefore whether the value of the fixed annual contract payments to compensate Telstra for the provision of these services is appropriate. The contract further lacks a mechanism which would enable the Government to effectively manage the financial risks should it wish to end the contract before the scheduled 20 year term.

Since assuming responsibility for the TUSOPA in July 2015, the Department has been a relatively passive contract manager. The Department has not utilised the flexibility mechanisms within the contract which have the potential to reduce the annual payment amounts. The Department commenced work in May 2017, through the establishment of the USO Taskforce, to assess whether the annual fixed payments to Telstra continue to represent value for public money in the evolving telecommunications environment.

Existing performance reporting provides limited transparency as to whether contract services are achieving the stated policy objective. More specifically, because reporting provides no information on the quantity of standard telephone services that Telstra supplies solely on the basis of its universal service obligations, it is not possible to determine the extent to which the TUSOPA contributes to Australians having reasonable access to such services on an equitable basis. In relation to service quality, contract reporting indicates that, with the exception of some shortcomings in the first year of the TUSOPA in 2012–13, Telstra has met all service performance benchmarks. Neither the Australian Communications and Media Authority (ACMA) nor the Department undertake processes to verify the accuracy of the underlying performance data provided by Telstra, which is used to determine compliance with the standard telephone customer service guarantee and payphone benchmarks.

While the TUSOPA has played a role in facilitating the involvement of Telstra in the rollout of the NBN, there is a lack of clear evidence that a net public benefit has been realised as a direct result of the introduction of the TUSOPA.

The ANAO's recommendations are as follows.

Recommendation No. 1

The Department should:

- a. determine if any of the existing flexibility mechanisms can be utilised to improve value for money outcomes while the National Broadband Network is being rolled out; and
- b. develop options for an efficient transition to any potential alternative USO delivery arrangements.

Recommendation No. 2

The Department should review whether existing arrangements provide an appropriate degree of assurance that Telstra's standard telephone service and payphone reporting is accurate and is an appropriate basis from which to assess Telstra's performance under the TUSOPA and make annual payments. An initial review should be completed in time to allow for any resulting changes to be implemented before making any payment for the 2016–17 financial year.