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Joint Standing on the NBN
Parliament House
Canberra ACT 2600

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Submission to the Joint Standing Committee on the National Broadband Network

Dear Committee Members,

Please see attached a submission prepared by a working group auspiced by TelSoc.

Kind regards

Anne Hurley
Director and Secretary TelSoc

Attachments:

1. January 2020 Journal Article
2. NBN 10-Year Development Plan outline
3. Project Group membership



Submission to the Joint Standing Committee on the National Broadband Network

This submission responds to the Committee's inquiry into various aspects of the NBN rollout. It was prepared by a TelSoc auspiced project group of leading industry experts.

TelSoc – who we are

TelSoc is the operating name of the Telecommunications Association Inc., a voluntary membership-based association of interested individuals, who seek to discuss, research and advance issues associated with telecommunications and the digital economy. TelSoc and its predecessor organisations have served as the learned society of the Australian telecommunications industry continuously since 1874 (initially as the Telegraph Electrical Society), convening regular talks by experts and publishing papers and monographs on Australian telecommunications for more than a century. Most of our individual members are professionals who have worked in the sector, including those with academic, research, regulatory and operational interests in the industry.

TelSoc seeks engagement with policy makers and other stakeholders on telecommunications issues via its quarterly publication, the *Journal of Telecommunications and the Digital Economy* ("the *Journal*"), and through the policy forums and other events that it organises. The *Journal* and its predecessor, the *Telecommunications Journal of Australia*, have been published continuously since 1935, initially in print and since 2007 online (<https://jtde.telsoc.org/index.php/jtde>).

TelSoc's overall approach to NBN issues

TelSoc has no commercial interests in the telecommunications sector. Consequently, on issues associated with the NBN, TelSoc's interests are solely to ensure that policy frameworks are well considered, based on deep understanding of the issues, and produce outcomes that advance Australia's longer term social and economic needs. In that respect, the TelSoc Project Group believes TelSoc's interests and goals align with those of the Committee.

Over many years, TelSoc and its predecessor organisations have promoted discussion and research into broadband themes through the *Journal*, supplemented by events programs. More recently, a more focussed and directed initiative has been adopted by TelSoc – which it calls the NBN Futures Project – to develop and concentrate attention on key issues as the NBN initial rollout draws to a conclusion and the Government considers the future of NBN Co and the NBN itself. The initial focus was on the future ownership options for the NBN, but this has led to wider consideration of what objectives should be set for the continuing NBN (whether in public or private hands) and how they could best be achieved. A timeframe of the order of 10 years has been adopted to encourage a longer term perspective.

The TelSoc NBN Futures Project has operated through a working group (see Attachment 3) that is open to any members and invited experts who wish to volunteer their time and expertise. The coordinating Project Group has prepared this submission.

Attached is TelSoc's description of the NBN Futures Project, and of the key issues that we have identified for further research and assessment to date. Attachment 1, 'The NBN Futures Project', published in the *Journal* in January 2020, provides the basis on which the Project will continue throughout 2020 and is an important position statement on the Project.

The Project's initial examination of ownership options for the NBN indicates that a sale immediately following the completion of the rollout is impractical and unlikely to occur, due to financial circumstances and the lack of readiness of the business for sale. This examination leads to the importance of focusing attention on the development of the NBN over the next 5 to 10 years, primarily to achieve its best social and economic value, through a well considered NBN 10-year Development Plan. A current major focus of the NBN Futures Project is the identification of key ingredients for such a plan, based on consideration of performance objectives, technology developments and financial considerations, as well as enhancing the NBN's social and economic value.

We see TelSoc's role as encouraging policy engagement concerning the issues that a development plan must address and critiquing plans that might emerge to ensure that they are fit for purpose. This matter is further referred to at the conclusion of this submission.

The Committee and its terms of reference

The TelSoc Project Group welcomes the Committee's inquiry and its selected range of crucial issues. We agree that issues associated with the financial and operational performance of the NBN are important. While the focus of the terms of reference is especially on short-term issues related to this major investment into Australia's fundamental infrastructure, we do recognise that many short-term national policy decisions are now necessary in reviewing the NBN.

However, the Committee's recommendations in this field will have significant medium- and longer-term impacts. The review of operational and financial performance should be undertaken in a planning and policy framework that also reflects the medium- and longer-term requirements and expectations for a national broadband infrastructure and services in Australia. It should also outline how the NBN infrastructure and its associated services can best advantage Australia in support of its digital economy and digital society.

The TelSoc Project Group encourages the Committee to take a longer-term perspective of the issues it is considering and the way they should be handled, given the important long-term nature of the NBN as a critical infrastructure investment in the country's future. We encourage the Committee to look beyond the short-term focus of its current terms of reference, and instead to provide leadership in the way important NBN issues are framed and addressed for the longer term.

Specific terms of reference

We deal in turn with each of the Committee's specific terms of reference below.

a. The economics of the NBN, including key operational and financial performance forecasts in the Corporate Plan 2020-23

The current NBN Co Corporate Plan is a short-term plan for such a long-term national infrastructure investment. The economics of the NBN cannot be determined over such a

short time horizon. Any view of the economics needs to factor in the important social and economic impacts of the NBN as part of the digital transformation that will be needed to keep Australia globally competitive and Australians socially and economically engaged in the digital society.

We have no issue with a short-term plan for immediate rollout of the NBN, but it must be seen only as the first instalment of a much longer term plan, some parts of which will be of national strategic significance.

In relation to the content of the Corporate Plan 2020-23, we recommend that the Committee addresses the following questions to NBN Co management, the Minister for Communications, Cyber Safety and the Arts, and the Department of Communications:

- Does the calculated Internal Rate of Return of 3.2% on the Commonwealth equity investment on \$29.5B represent a target for dividend rates to government? (The point of this question is to enable a subsequent discussion with the Committee and others about the basis on which planned returns are determined for NBN Co.)
- What benefits might be passed to NBN customers (retail service providers) and ultimately to retail customers and end users if a lesser percentage return to the Commonwealth was acceptable? In particular, how would price and performance be improved as a result? (We understand that no dividends have been paid to the Commonwealth by NBN Co, but we are unclear whether that situation is planned to continue, and whether the amounts involved will be available to benefit NBN customers and, in turn, end users in terms of improved service, lower prices or both. The point of the question is to better understand how trade-offs between NBN Co's commercial returns to the Commonwealth and customer benefit operate in practice.)
- What initiatives is NBN Co taking during the period of the Corporate Plan to reduce its prices to retail service providers? (The point of this question is to recognise that NBN Co is an effective monopoly and is unconstrained by competitive market forces to keep its prices as low as possible. Therefore, management accountability processes, including via the Committee, are especially important.)
- Is the need to achieve a return on the Commonwealth's investment preventing NBN Co from reducing its prices to its customers in FY2020 and beyond?
- In the Corporate Plan 2020-23, NBN Co asserts that by the end of FY2021 it will have contributed 31,000 new jobs to the economy and \$10.4B to GDP. How does NBN Co plan to measure and report on whether these goals, if indeed they are goals, have been achieved? Will NBN Co set such goals for each of FY2022 and FY2023?
- The Corporate Plan 2020-23 refers to the rollout being completed by June 2020. Is the completion on track and what capital investment will NBN Co undertake after that, bearing in mind that it plans annual capital expenditure of \$1.4B after that date? (The point of this question is to understand what completion of the rollout means in practice for the further work that NBN Co has planned and the nature of that further work, and what the \$1.4B encompasses.)
- A question for the Minister and the Department: recognising the important role of the Digital Transformation Agency, what else will the Government be doing to exercise digital leadership during the next three years, to ensure that a whole-of-government approach is taken to the development and rollout of Government services that exploit the NBN?

(The point of this question is to recognise that much more than NBN rollout is needed for Australia to gain the full benefits of social and economic digital transformation.)

b. current pricing structures, including wholesale pricing, affordability and take-up, particularly as they relate to low-income and regional customers

In addition to the comments we have made under TOR (a), above, about the need to consider trading off short-term return on investment to the Government for lower prices at wholesale and retail level, we make the following general observations.

We endorse an emphasis on social inclusion, which will in part be reflected through pricing structures, affordability and special consideration given to low income and regional customers. We also recognise that major social and economic benefits will accrue through ensuring that affordable and reliable high-speed broadband services in suburban Australia are readily available. We ask the Committee to keep suburban Australia, where much economic activity is generated, to the forefront of its considerations. It is crucial to note that ‘suburban’ Australia extends well into regional areas, increasingly so as the population grows and expectations of the digital society evolve.

A whole-of-government approach would be helpful in considering social inclusion and social pricing for the NBN. The Government gains from the NBN through greater productivity in the general economy and through more cost-effective means of delivering government services, in-home health care, teleworking, online education etc. If these benefits were ascribed to the NBN in a whole-of-government approach, the direct returns through wholesale prices set by NBN Co could perhaps be reduced. We understand that ACCAN (the Australian Communications Consumer Action Network) has undertaken modelling on a subsidy for the entry-level NBN service to show how it could be implemented in a budget-neutral way. While we do not wish to comment on the specifics of the proposal, we believe it shows how a whole-of-government approach could be taken in setting NBN wholesale prices.

c. network coverage issues; including reporting of outages planned and unplanned

Coverage, quality of service and outages are important service and operational issues, and they need to be addressed in order to build public confidence in NBN services. End-user customers are currently provided with little information on what frequent planned outages are achieving. Customers will benefit from being more fully informed on outages, leading to greater public confidence in the NBN.

A major potential benefit of an NBN having high capability and reliability is to permit SMEs to establish themselves in regional locations. Once the NBN’s performance becomes consistently comparable in regional areas to that available in urban areas – in the availability of high bandwidth at low cost and with high reliability – there may be a significant movement away from urban areas, with a consequent beneficial reduction in infrastructure costs to state and local government.

d. the delivery of the business segment strategy, including to enterprise and government customers, and small to medium businesses

There must be greater attention given to how broadband services are offered to the small-to-medium business segment, which represents the engine for much economic growth, including, importantly, employment growth. The Committee will be aware of important social and employment trends enhanced by the digitalisation of the Australian economy,

through the convergence of household and business uses of online resources and applications. Increased access to online services has increasingly blurred the distinction between private and business access – effectively blurring the distinction between being at work and not being at work, and reducing the extent to which the distinction is time-based. Where work is undertaken at home or away from the normal office or business location, the concept of ‘business hours’ is weakened. This is an ongoing development, and has become more pronounced as spending some work time at home increases.

At a recent TelSoc forum, a speaker from New Zealand noted that a popular Ultra-Fast Broadband (UFB) business service being taken up by SMEs in New Zealand is at 200 Mbps symmetric (that is, 200 Mbps both downstream from the network to the end user and upstream from the user to the network). This highlights the importance of upstream bandwidth for many SMEs. (Upstream bandwidth is needed, for example, for effective cloud computing and interactive design projects.) It is likely that there will be commercial pressure on the NBN to provide greater upstream capacity.

In addition, the Committee should anticipate that the wide global accessibility of higher speed broadband networks will quickly stimulate the establishment of more widespread information-based industries in the SME sector, just as the introduction of smart phones demonstrably paved the way for new information-based services. A lack of widely available appropriate high-speed access would hinder Australian SMEs in participating in these new opportunities.

e. the experiences of small and medium business in relation to the utilisation, accessibility, customer service and affordability of the NBN

Much commentary about these matters is necessarily anecdotal, and is usually about experiences with retail service providers. Statistical information about real broadband experience that is representative is hard to access. The complaints and disputes data collected by the Telecommunications Industry Ombudsman is useful when dissatisfaction with aspects of the customer experience and customer service reach a high level, but seldom indicates anything about utilisation or affordability.

We believe that the inquiry will provide a valuable opportunity for the Committee to move beyond the anecdotal to the collection of meaningful and fuller statistics that will enable a more objective assessment of utilisation, accessibility and affordability, both at present and to support analysis of changes over time. In this way the Committee can build out from what might be construed as an immediate focus in the terms of reference to a longer term approach to assessing performance on these dimensions.

f. compliance with the NBN Statement of Expectations and adequacy of that Statement

The TelSoc Project Group has no doubt that NBN Co will be able to show that it has complied with the Statement of Expectations. Our concern is with the Statement of Expectations itself.

We consider that the Statement of Expectations is weak and inadequate as an expression of national policy objectives for the NBN. The version of the Statement that is now in force is relatively vague and is not current: it dates from 2016. We offer the following critique of the Statement:

- It should be reviewed regularly, perhaps annually, to ensure it remains up-to-date. The technologies, markets and society in which the NBN is operating are rapidly changing. Demand patterns for broadband products and performance also change with time.
- The vagueness of the Statement of Expectations may have been appropriate in the past, but is not justified in 2020 when the initial rollout is due to be completed. A future-focussed Statement of Expectations should define the measurable goals for which NBN Co management will be accountable.
- Completion of the network is set out to be “as soon as possible”. A more detailed commitment has been separately provided by NBN Co, and the Statement of Expectations should be updated by Government with measurable and accountable targets.
- The provision of download service of at least 25 Mbps to all premises and at least 50 Mbps to 90% of fixed-line premises is also expressed to be “as soon as possible”. These targets will not assist Australian businesses, and especially SMEs, to be internationally competitive. The Government’s expectations should be much more ambitious and more precisely expressed. Consideration should also be given to raising these standards over time, as is being done in many other countries, including New Zealand.
- The network rollout expectation should be defined in measurable terms. NBN Co should then prioritise locations that do not meet the expectations. Wholesale and retail customers are entitled to have precise expectations and receive related regular reporting.
- The Statement says that NBN Co “should retain optionality for future restructuring or disaggregation”. Now that the rollout is coming to an end, the Government should be clearer about its requirements. The Committee should be aware that retaining technology silos has long hampered other telecommunications providers and can lead to additional and unnecessary capital and operational expenditures. Where a technical or operational-support boundary is mandated by the Government, to enable a future separation option, the additional costs should be carefully considered.
- The Statement says that NBN Co “is required to undertake a rigorous corporate planning process which aligns with the large investment the Commonwealth has made in the company and the national importance of the project”. The corporate planning process should also align with and reflect the long-term nature of the infrastructure investment. Corporate plans might have an immediate horizon of three years, but they need to anticipate much longer horizons, preferably 10 or 15 years in the case of the NBN.
- So far there has been no consideration of future works needed to upgrade the NBN to meet the growing demand for higher data rate services. In particular, the need for enhancements to many premises’ access connections will become necessary as demand for faster services grows. TelSoc believes that the key objective of an upgrade path should be quantified and considered as part of a longer term, 10-year development plan, linked to the Statement of Expectations.

g. any other related matters

We have argued above that, as enduring major infrastructure, the NBN needs long-term planning. It is apparent that one of the primary barriers to such a long-term perspective to date has been the political tension that has surrounded this project. The lack of bipartisan support has also encouraged a climate of continuous criticism of the NBN from its very beginning.

The TelSoc Project Group believes it is time that the Committee, the Parliament and the Government work towards broad stakeholder engagement and bipartisan support for NBN development. (We note that bipartisan support for reform in telecommunications largely existed from 1986 through to 1997, as the Australian telecommunications industry worked through dramatic structural reform.)

Stabilizing the policy framework for the NBN should include:

- Explicit recognition that the sale of the NBN should not be considered for a period of 5 years or so. This pause will allow time for its ongoing enhancement from both commercial and service perspectives.
- The establishment of a long-term, 10-year development plan for the NBN with an updated Statement of Expectations.

The TelSoc Project Group urges the Committee to use its influence to encourage a bipartisan, long-term approach. As an initial step in this direction, we have provided as Attachment 2 an outline drafted within TelSoc's NBN Futures Project of the issues to be addressed and the content to be included in an NBN 10-year Development Plan.

17 January 2020