



25 January 2018

Committee Secretary
Joint Committee of Public Accounts and Audit
Parliament House
Canberra ACT 2600

Dear Committee Secretary,

Vodafone Hutchison Australia (VHA) is pleased to provide a submission to the Committee's inquiry based on the Auditor-General's report No. 12 (2017-18): *Management of the Contract for Telephone Universal Service Obligations*.

VHA strongly supported the Auditor-General's audit of the effectiveness of the Department of Communications and the Arts' (DoCA) management of the contract for the Telecommunications Universal Service Obligation (TUSO). The Auditor-General's report raises serious questions of transparency, accountability, efficiency and controls in relation to the TUSO. This represents the third highly critical government report in three years, following on from the Regional Telecommunications Review Committee and the Productivity Commission reports.

In 2012, the TUSO was locked down in a 20 year contract between Telstra and the Commonwealth. Under this contract, Telstra receives almost 300 million dollars every year. 100 million dollars of this comes directly from taxpayer funds whilst the rest is essentially also funded by taxpayers through levies placed on telecommunications consumers. This equates to 814,000 dollars every day or 6 billion dollars over the 20 year term of the contract.

VHA's 5.7 million customers are required to contribute substantial funding to the TUSO. Given the lack of transparency, accountability and controls in the TUSO arrangements identified by the Productivity Commission and the Auditor-General, VHA has serious concerns that there is a transfer of such monumental amounts of taxpayer funds to a single private company in a plainly anti-competitive manner. This has profound implications for the efficiency of the administration of taxpayer funds and investment and competition in the communications industry and, more broadly, given that the communications industry is a critical enabler of innovation, productivity and efficiency in the Australian economy. On behalf of its millions of customers, including millions of taxpayers, VHA has a clear interest in ensuring that the Telstra USO Performance Agreement (TUSOPA) achieves its stated policy objectives and is effectively managed by DoCA.

VHA is strongly concerned regarding the general lack of transparency around the negotiation and management of the TUSOPA by DoCA and the fact that the terms of the TUSOPA are not, and have never been, in the public domain. VHA considers that key aspects of the TUSOPA should be in the public domain so that greater accountability is applied to Telstra in relation to its performance under the TUSOPA.

Since the TUSOPA has never been made public, it is difficult for VHA and other contributors to the TUSO to fully understand the nature and implications of the current TUSO and the obligations under the TUSOPA. VHA is particularly concerned that the payments under the TUSOPA are excessive relative to the service that Telstra has been contracted to perform and that Telstra appears to be generating a profit at the expense of taxpayers and TUSO levy payers including VHA.

These concerns are exacerbated by the fact that current contract reporting does not provide enough information to determine whether or not contracted services are achieving policy objectives, in particular whether the agreement contributes to consumers having reasonable access to fixed services. Of further concern is the fact that neither the ACMA nor DoCA undertake any form of assurance processes to verify the accuracy of the performance data provided by Telstra which is supposedly used to calculate compliance with the service benchmarks set under the TUSOPA.

VHA is encouraged by the Federal Government's recent announcement in relation to the future of the TUSOⁱ. However, the Parliament should be concerned that taxpayers will continue to provide nearly 1 million dollars every day to Telstra for at least another 3 years given government figures show that Telstra has already shut down around half of the copper and payphone services it is supposed to maintain under the TUSOPA.

The TUSO in its current form therefore represents at least 150 million dollars a year of wasted money that could be used to solve regional mobile coverage issues. The Auditor-General's report states that DoCA "has not utilised the flexibility mechanisms within the contract which have the potential to reduce the annual payment amounts." The Government must utilise the flexibility mechanisms identified by the Auditor-General within the TUSOPA to reduce the annual TUSO payments to Telstra in line with services that have been shut down.

We thank for Committee for considering this submission. We are happy to contribute further information on any of the points raised in this submission.

Yours faithfully

Dan Lloyd
Chief Strategy Officer & Corporate Affairs Director

ⁱTelecommunications Universal Service Obligation Productivity Commission Inquiry Report No. 83, 28 April 2017.

ⁱⁱhttp://www.minister.communications.gov.au/mitch_fifield/news/government_releases_productivity_commission_report_into_the_universal_service_obligation#:~:WmFzytWWaHs