



Australian Government
Department of Communications and the Arts



Australian Government
Department of Finance

PDR ID: EC18-000308

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

Dear Chair

Inquiry into the business case for the National Broadband Network

Inquiry into the rollout of the National Broadband Network in rural and regional areas

The Department of Communications and the Arts and the Department of Finance welcome the opportunity to make submissions to the Committee's inquiry into the business case for the National Broadband Network (NBN) and the inquiry into the rollout of the NBN in rural and regional areas.

The joint submission to the inquiry into the business case for the National Broadband Network (NBN) is at Attachment A.

The joint submission to the inquiry into the rollout of the NBN in rural and regional areas is at Attachment B.

Yours sincerely

Mike Mrdak AO
➤ April 2018

Rosemary Huxtable PSM
↵ April 2018

Inquiry into the business case for the National Broadband Network

nbn governance

NBN Co Limited (nbn), the company established to roll out and operate the National Broadband Network (NBN), is a Government Business Enterprise (GBE) and, as such, operates at arm's length from Government. Broadly, the Australian Government's relationship to its GBEs is similar to the relationship between a holding company and its subsidiaries. In the case of nbn, this includes:

- setting expectations for the performance and financial returns of nbn;
- reporting and accountability arrangements that facilitate active oversight by Shareholder Ministers (the Minister for Communications and the Arts and the Minister for Finance);
- management autonomy, balanced with regular reporting of performance to Shareholder Ministers; and
- a Board that is accountable to shareholders for nbn's performance, and shareholders that are accountable to Parliament and the public.

GBEs are governed by the *Public Governance, Performance and Accountability Act 2013* and the *Public Governance, Performance and Accountability Rule 2014* (the PGPA Act and Rule), and the associated *Commonwealth Government Business Enterprises – Governance and Oversight Guidelines Resource Management Guide No. 126* (the GBE Guidelines).

As a Commonwealth company, nbn is also incorporated under the *Corporations Act 2001* (the Corporations Act). nbn is currently wholly Government owned, and its governance framework is regularly reviewed to ensure it aligns with the Government's regulatory and legislative requirements, as well as market best practice.

Shareholder Ministers, in consultation with nbn's Board, provide further guidance on the purpose, role and limits of the activities of the company in the form of a Statement of Expectations (SoE). The SoE helps ensure the company's strategic direction aligns with the Government's objectives for the delivery of the network, while also providing nbn with flexibility and discretion in operational, technology and network design decisions, within the constraints of the Government's broadband policy. The current SoE is published on the nbn website.

nbn reporting and planning

The company is subject to a range of transparency and reporting obligations, including the provision of:

- an Annual Corporate Plan (section 95 of the PGPA Act);
- an Annual Report (the Corporations Act and section 97 of the PGPA Act);
- Quarterly financial results (the Corporations Act);
- Monthly public progress reports;
- confidential monthly reports to Shareholder Ministers (Statement of Expectations);

- provision of weekly rollout statistics (Statement of Expectations); and
- disclosures of significant events to Shareholder Ministers through section 91 notifications under the PGPA Act.

These reporting obligations provide transparency for both the Government and the public with most information published on the nbn website including the Annual Corporate Plan; Annual Report; Quarterly results; weekly progress report; and a new monthly progress report.

In particular, nbn's mandate is considered by Shareholder Ministers as part of the company's annual corporate planning process. In the case of nbn, this business planning process is extensive and includes an annual review of the company's business and strategic planning by Shareholder Departments.

Examination of the range of factors which impact on the ongoing viability of nbn's business plan is a complex exercise. As such, Shareholder Departments consider that the best approach to consider and report on changes to the company's business plan and financial forecasts is to undertake this analysis as part of annual corporate planning. This allows the Government to consider a consolidated assessment of the factors that might impact on nbn's business case.

Corporate planning

As with all GBEs, nbn's Corporate Plan is required to be published by 31 August each year. We note that the GBE Guidelines also make clear Government's expectation that the company will engage with Shareholder Ministers and Departments early in its corporate reporting and planning processes, to allow sufficient time for the Government to undertake an assessment of nbn's business plan, financial forecasts and Corporate Plan (GBE Guidelines 3.2.a).

nbn's annual Corporate Plans include four year forecasts, and demonstrate that the company has been consistent in broadly achieving its rollout and activations targets, including a doubling of the network footprint over multiple financial years as the rollout has progressed (for example from 652,000 premises ready for service in 2013-14 to 1.2 million in 2014-15 and 2.9 million in 2015-16). nbn has also consistently demonstrated favourable revenue results, and operating and capital expenditure have been largely in line with Corporate Plan targets.

The GBE Guidelines obligate nbn to include a strategic assessment of the company's operating environment, investment and financing programs including strategies for managing financial risk, financial and non-financial measures of performance, and financial targets and projections including a comparison to the previous Corporate Plan (GBE Guidelines Table 3). These are published in the Corporate Plan.

The company must also provide a summary of its risk oversight and management systems including: an analysis of key risks; how these risks will shape the activities to be undertaken to fulfil nbn's purpose and meet financial targets; accountabilities for managing risk; mitigation strategies and their alignment with nbn's objectives, consistent with the intent of the *Commonwealth Risk Management Policy 2014*. These are published in the Corporate Plan.

As with all national infrastructure projects of the size and complexity of the NBN, nbn is required to carefully manage the associated financial and operational risks. nbn considers these risks in developing its annual Corporate Plan, including sensitivity analyses to investigate a range of outcomes over the life of the project.

Government loan to nbn

As announced in November 2016, the Government provided a loan to nbn on commercial terms of up to \$19.5 billion for the period from 1 July 2017 to 30 June 2021, with drawdowns available on a monthly basis. The loan has a fixed interest rate of 3.96 per cent, with interest calculated daily and payable monthly over the life of the facility.

A Government loan on commercial terms represents the most cost effective way for nbn to raise necessary debt and secure funding to complete the rollout of this important national infrastructure project. The loan will assist in ensuring that nbn can focus on the remaining rollout as it significantly scales up toward completion in 2020.

As the loan is anticipated to be repaid in full, there is an overall positive impact on the underlying cash balance and fiscal balance as the Public Debt Interest costs on government borrowings is less than the interest repayments on the loan.

Accounting treatment

The accounting treatment of the NBN is consistent with accrual reporting and accounting standards – Government Finance Statistics (GFS) and Australian Accounting Standards (AAS). The Commonwealth has now contributed the full amount of its \$29.5 billion equity commitment. Capital contributions to public corporations are classified fully as equity if the investment is forecast to provide a real return of the investment (i.e after inflation) to the Government, consistent with the GFS and AAS standards.

The valuation of the Government's investment in nbn, as recorded in the Department of Communications and the Arts' financial statements is at fair value. As at 30 June 2017, this was assessed to be \$16 billion, based on the value of nbn's net assets (i.e. total assets minus total liabilities). The value is less than the \$29.5 billion invested because a portion of this has been used to fund operating costs during the start-up phase (while nbn's revenues are less than its expenses) and under the net assets approach this also includes depreciation expenses.

The valuation of the government's investment and the recognition, measurement and disclosure of the nbn loan in the Department of Communications and the Arts' financial statements are independently reviewed by the Australian National Audit Office for compliance with AAS.

Shareholder Departments are confident that thorough analysis of information provided by nbn as part of its regular reporting to Government – and particularly through the preparation of the company's annual Corporate Plan – affords the Government a high degree of oversight of the company's financial forecasts and provides the Government with sufficient information to assess nbn's commercial viability and future prospects.

Privatisation of nbn

Provisions in the *National Broadband Network Companies Act 2011* outline how the company may be sold to the private sector after the network is declared to be fully operational. Under these arrangements, before nbn can be fully or partly privatised, the network rollout must be declared complete by the Communications Minister, a review must be undertaken by the Productivity Commission, and the Finance Minister must declare that market/financial conditions are appropriate for such a sale.