



Australian Government

Department of Communications and the Arts

Submission to the Joint Committee of Public
Accounts and Audit Commonwealth
Procurement – Inquiry based on
Auditor-General's reports ANAO Report No. 12
(2017-18) *Management of the Contract for
Telephone Universal Service Obligations*

January 2018



Introduction

As requested by the Joint Committee of Public Accounts and Audit (the Committee), this submission sets out the status of the actions being undertaken by the Department of Communications and the Arts (the Department) as a result of ANAO Report No. 12 (2017-18) *Management of the Contract for Telephone Universal Service Obligations*.

Background

On 29 September 2017, the ANAO published its report into *Management of the Contract for Telephone Universal Service Obligations* (USO). The report made two recommendations for improvement:

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 [the Telstra Universal Service Obligation Performance Agreement] 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.



Actions to address ANAO recommendations

An overview of the key actions taken to address the ANAO report, grouped into some key themes, is provided below.

USO reform

On 20 December 2017, the Government released its response to the Productivity Commission Inquiry into the Telecommunications Universal Service Obligation.

The response noted that 'the USO is a long-standing safeguard that ensures all Australians have access to a voice only Standard Telephone Service (STS) and payphones. However, changing consumer preferences and the rapid evolution of technology means that the mechanisms used to deliver these services are increasingly outdated.'

The Government announced a program of work to implement a new Universal Service Guarantee (USG). The USG 'will provide all Australian premises, regardless of their location, with access to both voice and broadband services delivered on a commercial basis by the market in the first instance, and where this cannot be achieved, options will be developed for targeted Government measures'.

The Government response noted that any new USG arrangements will need to meet four key requirements:

- broadband services are available to 100 per cent of Australian premises, on request, at the completion of the National Broadband Network (NBN) rollout in 2020;
- voice services are available to 100 per cent of Australian premises on request;
- any proposed new service delivery arrangements are more cost effective than the existing USO contract (including any transitional costs); and
- a new consumer safeguards framework is in place following a review and associated public consultation process.

As part of the development of the new USG, the Government 'is committed to voice telephony services via the existing USO contract with Telstra until this is replaced with a USG following the completion of the National Broadband Network rollout in 2020'.

The Government response was also clear that 'as new arrangements are developed for the Universal Service Guarantee, the Government will engage with Telstra regarding the provision of the existing USO services.'

The ANAO report was clear that the TUSOPA 'lacks a termination for convenience provision or other mechanism to limit the Government's financial exposure should it wish to terminate the agreement early'. However, Telstra has indicated, in its article *USO: Keeping all Australians connected* of 20 December 2017, that it is 'open to working with government and regional stakeholders on the reform process'. This could include utilising the existing flexibility mechanisms within the TUSOPA.

The Department has now commenced work on cost and delivery options to provide for a future USG, and will work with industry stakeholders and representatives of regional and remote Australia in this effort. Further updates will be provided in 2018. Within the Department, this work will be coordinated by the USO Taskforce.



Improved contract management

The Department's response to the ANAO report acknowledged that 'there is always opportunity to improve its management of a complex contract such as the TUSOPA'. It also noted that 'the Department has already implemented changes to ensure more effective management of this significant agreement and the ANAO's recommendations will be considered in the context of achieving improvements'.

In particular, the Department has consolidated all functions related to the administration and management of the TUSOPA into a single area — the Consumer Safeguards Branch — and a strengthened contract management approach is now in place, within the terms of the current TUSOPA.

This includes a new engagement framework with Telstra around Module B and Module C of the TUSOPA, consistent with other public interest telecommunications contracts managed by the Department. The Department now conducts monthly operational meetings with Telstra, which include formal mechanisms to identify and resolve contractual issues. There has been an expansion of the contract management plans for Modules B and C to include transparency and reporting requirements on Telstra's performance data and a framework for targeted performance audits, consistent with the audit programs for the Department's other public interest telecommunications contracts. The Department has also re-established quarterly senior management meetings where any significant issues across the TUSOP Agreement can be raised with senior levels of management.

These changes improve the management of the contract, recognising, as acknowledged by the ANAO in its report, the scope for improvement is constrained by the history and design of the TUSOPA contract itself.

The ANAO identified that when the previous Government was developing the TUSOPA: 'The Government's objectives associated with the establishment of the NBN played an important role in the TUSOPA negotiations. The TUSOPA became the means through which the Government was able to deliver sufficient financial benefit to Telstra to ultimately secure Telstra's involvement in the rollout of the NBN.'

Value for money

The ANAO report states that 'Telstra's actual current net cost of providing the STS USO remains in dispute.' The report observes that while there has been decline in demand for standard telephone and payphone services since the commencement of the TUSOPA, the fixed annual fee under the contract has not changed as a result.

The TUSOPA does not require Telstra to provide information on the annual costs associated with providing USO services. However, as noted by the Department during the October 2017 Senate Estimates process: 'Costing telecommunication networks is really difficult because they've got high fixed costs and, although usage might decline, there's an obligation on the provider to maintain the whole network. So that makes costing quite difficult.' The Productivity Commission Inquiry into the Telecommunications Universal Service Obligation also identified that 'Most participants [to the inquiry] considered copper to be an outdated technology and one where the costs of maintenance are likely to increase over time.'

Record keeping

The ANAO report identified 'short-comings in the Department's record keeping system, particularly in relation to records relating to the policy development process between April 2009 and April 2010.'



The ANAO's data requests covered the period from 2009 onwards. The Department provided the ANAO with all records requested from February 2011. These records were sourced from its current information management system and back up tapes of a legacy system.

In regard to the period 2009 – 2010, the Department was not able to locate all of the requested records. Consideration was given to undertaking a broad data extraction from back up tapes to identify relevant records, however this would not have been completed in the timeframe requested by the ANAO.

The Department recognises that there were shortcomings in its recordkeeping practices at that time, and acknowledges that the information the ANAO was seeking should have been stored in its records management system to enable easy identification and retrieval.

The Department has since improved the way in which key steps in policy development processes are recorded and stored. This has enabled easier identification and retrieval of all records created and held by the Department.

