6

Private Equity Funding and Telstra Workforce Issues

Introduction

6.1 At the start of the Third Review, the committee adopted a working group structure, to enable it to focus on several topical issues under its broad terms of reference, including:

- The potential of private equity to fund the National Broadband Network (NBN); and
- Telstra workforce issues in the context of the rollout of the NBN.

6.2 These issues were identified for future inquiry in the First Report and initially reported on in the Second Report.

6.3 The committee has investigated these two matters in some detail over the third reporting period and its findings are discussed below. Given the ongoing significance of these areas, the committee will also continue its inquiries into these matters over the fourth reporting period.

Private Equity Funding

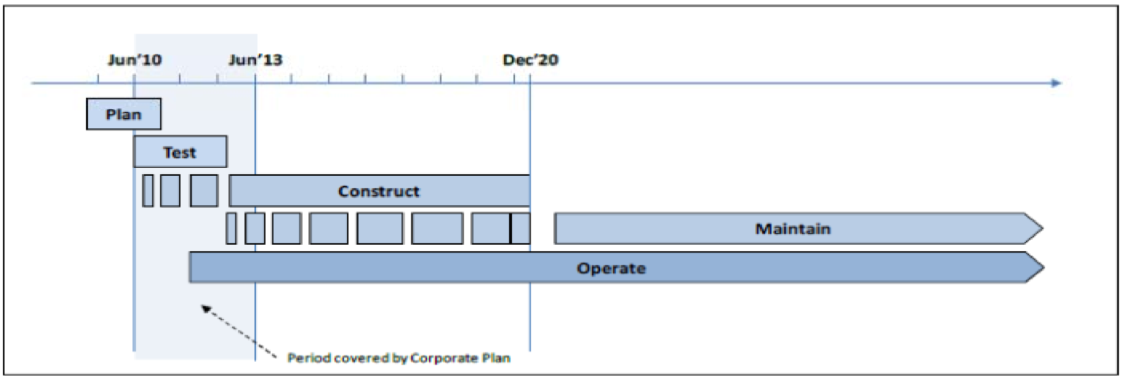
Background

6.4 This section of the report considers issues associated with private equity engagement in funding the NBN. Government funding of the NBN over the rollout period, under the equity agreement between the Government and NBN Co, is discussed in Chapter 2.

6.5 On 22 June 2011, the Government and NBN Co entered into a funding agreement, whereby the Government provided assurances to NBN Co that it would provide equity funding to NBN Co until 30 June 2021, unless the agreement was terminated earlier.[1] Total Government funding pursuant to the agreement is capped at $27.5 billion.[2] As at 31 December 2011, the Government had made a total of $2.482 billion available to NBN Co, of which $1.12 billion has been provided in the current financial year.[3]

6.6 The committee continues to be interested in when and how private equity might be engaged in funding the NBN wholesale platform, and at what financial return to the Government and, ultimately, taxpayers. The current timeline for the NBN project is set out at Figure 6.1.

Figure 6.1 National Broadband Network Long-term Timeline Commencing in June 2010



Source *NBN Co Corporate Plan 2011–2013, p. 22.*

First and Second Reports

6.7 The First Report signalled the committee's intention to examine the potential of private equity to fund the NBN. The committee was particularly interested in the issue of when and how private equity might be engaged in the wholesale platform.

6.8 The committee concluded that it would 'seek further information on how private equity will be attracted, used and repaid to the Government on its

1 Shareholder Ministers, 'Performance Report to 30 June 2011', *Submission 19* to the Second Review by JCNBN, p. 5.

2 Shareholder Ministers, 'Performance Report to 31 December 2011', *Submission 12*, p. 22.

3 Shareholder Ministers, 'Performance Report to 31 December 2011', *Submission 12*, 'Financials (unaudited)', p. 22.

NBN investment'.[4] In particular, the committee was interested in whether there are 'options available to NBN Co to engage private equity through the construction phase of the NBN, to enable a return to taxpayers sooner'.[5]

6.9 In the Second Report, the committee sought information on 'whether it would be in the national interest to bring forward the timeframe for private equity engagement'.[6] Drawing on the McKinsey & Company/KPMG *Implementation Study*,[7] the Department of Broadband, Communications and the Digital Economy (DBCDE) advised that:

> On balance, the Implementation Study recommended that the government should fund NBN Co with equity investments until NBN Co can raise its own investment-grade debt and pay interest from its own cash flow ...
>
> ...private equity should not be introduced before privatisation as it will be too expensive and constrain Government's ability to get its policy and regulatory settings right before allowing private ownership.[8]

6.10 The committee was also interested in the 'cost/benefit to the economy of bringing forward the introduction of private equity'.[9] The DBCDE advised that the *Implementation Study* had concluded that 'private equity will be more expensive than government equity' in funding the NBN.[10]

6.11 Noting this advice, it was concluded that 'more work need[ed] to be done in detail' on the issue of private sector engagement and that investigation of this matter would therefore be continued over the third reporting period.[11]

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4 Joint Committee on the National Broadband Network (JCNBN), *Review of the Rollout of the National Broadband Network: First Report*, August 2011, pp 54-55.

5 JCNBN, *Review of the Rollout of the National Broadband Network: First Report*, August 2011, p. 55.

6 JCNBN, *Review of the Rollout of the National Broadband Network: Second Report*, November 2011, p. 73.

7 McKinsey & Company/KPMG, *Implementation Study*, May 2010 <www.dbcde.gov.au/broadband/national_broadband_network/national_broadband_network_implementation_study>.

8 Department of Broadband, Communications and the Digital Economy (DBCDE), *Submission 3.3*, Second Review of the JCNBN, Answers to Questions on Notice Nos 6.3-6.4, p. 2.

9 JCNBN, *Review of the Rollout of the National Broadband Network: Second Report*, November 2011, p. 74.

10 DBCDE, *Submission 3.3*, Second Review of JCNBN, Answers to Questions on Notice Nos 6.3-6.4, p. 2.

11 JCNBN, *Review of the Rollout of the National Broadband Network*, Second Report, November 2011, p. iv.

Current Report

6.12 Following the Second Review, the committee was interested in more closely examining the following issues:

- the possibility of bringing forward a timeframe for private equity engagement in funding the NBN, within the existing legislative framework
- further testing the cost/benefit of bringing forward a timeframe for private equity engagement in funding the NBN
- NBN Co's debt financing arrangements.

Existing Legislative Framework

6.13 The committee was interested in whether, under the existing legislative framework for the NBN, a timeframe for private equity engagement in funding the NBN might be brought forward during the construction phase, thereby enabling an earlier return to taxpayers.

6.14 In its submission, the DBCDE explained that:

> The introduction of any non-Commonwealth direct interest in the share capital of NBN Co would be inconsistent with the existing legislative provisions and social policy objectives ... The Government does not intend to sell the network or take on private equity other than in the circumstances outlined in the relevant legislation.[12]

6.15 In terms of the existing legislative provisions, NBN Co was established as a company under the *Corporations Act 2001* (Cth) in April 2009 and is governed by the provisions of that act. Further, as a company with shares that are owned by the Australian Government, NBN Co is subject to the provisions of the *Commonwealth Authorities and Companies Act 1997* (Cth). NBN Co is also governed by specific legislation, the *National Broadband Network Companies Act 2011* (Cth). This legislation 'sets out the circumstances in which the Commonwealth can dispose or transfer shares in NBN Co', including the following preconditions:

- declaration by the Communications Minister that the national broadband network should be treated as built and fully operational
- the conduct of a Productivity Commission inquiry into the regulatory framework for the network, impacts of a sale of the

12 DBCDE, *Submission 10*, p. 11.

Commonwealth's equity on the budget and the supply of broadband services and the impact on competition in the telecommunications market

- conduct of a parliamentary Joint Committee consideration of the Productivity Commission report
- declaration by the Finance Minister that conditions are suitable for the conduct of a sale
- expiry of a fifteen sitting day disallowance period without either House passing a resolution of disallowance.[13]

6.16 Following satisfaction of all these preconditions 'a sale of NBN Co can proceed'.[14] There are also provisions placing restrictions on the nature of capital in relation to NBN Co. These 'preclude a party other than the Commonwealth being able to exercise all the voting rights, holding any of the paid up share capital of NBN Co or holding any of the rights to any distribution of capital or profits'.[15]

Policy Rationale and Cost/Benefit

6.17 As discussed above, a further reason put forward by the DBCDE to explain the difficulties in bringing forward a timeframe for private equity engagement in funding the NBN was that this would be 'inconsistent with ... social policy objectives'.[16] As the department observed:

> There is a non-financial reason at work here ... For any private equity contribution to the project that was beyond the trivial level, the investor would be looking to have some control or influence over the use of the equity and its return, which inevitably would lead to the risk of policy compromises. The government is doing this primarily for policy reasons so it undermines the logic of using private equity.[17]

6.18 The department further pointed to the 'Executive summary' of the *Implementation Study* on this point:

> Government should fund NBN Co solely with Government equity until NBN Co can raise its own investment-grade debt and pay interest from its own earnings. Private equity should not be introduced at least until the network roll-out is complete. To do so

13 DBCDE, *Submission 10*, p. 9.
14 DBCDE, *Submission 10*, p. 9.
15 DBCDE, *Submission 10*, pp 9-10.
16 DBCDE, *Submission 10*, p. 11.
17 Mr Daryl Quinlivan, Deputy Secretary, DBCDE, Transcript of Evidence, Sydney, 16 April 2012, p. 50.

> any earlier would be too expensive, in terms of the returns required by investors, and would constrain Government's ability to establish the right policy and regulatory settings.[18]

6.19 The department also highlighted a series of issues related to this point, affecting the cost/benefit of bringing forward a timeframe for private equity engagement in the NBN. The department explained that in the *Implementation Study* the Government had sought advice from McKinsey & Company/KPMG on the opportunities to attract private investment to the NBN, with a number of key factors affecting the use of private investment having been identified, including:

- the amount available for investment
- the returns required on investment
- the level of control required by the investor.[19]

6.20 As Mr Harris, the Secretary of DBCDE, confirmed:

> ...at this stage in the NBN, the premium for risk required for an equity investor would naturally be very high. KPMG wrote that very explicitly in the implementation study ... It is primarily driven by the fact that this is a very large project that will last for a very long time. It will take a significant amount of upfront losses before it starts to cover its costs. As a consequence, the premium for equity will be high. At this stage, the advice and implementation study from KPMG was pretty clear: do not try and draw down equity markets. We have not seen a reason to vary from that.[20]

6.21 In terms of the *amount available for investment*, the DBCDE explained that, while Australian superannuation funds have substantial funds available for investment, these are 'subject to quite rigid asset allocation regimes involving a heavy focus on diversification of exposure between types of investment and within investment types, between individual investments'. The size of individual investments is 'strongly biased towards low risk where returns are highly predictable'. Accordingly, for stable low-risk investments 'amounts in the hundreds of millions can be

18 McKinsey & Company/KPMG, *Implementation Study*, May 2010, p. 41—quoted by DBCDE, *Submission 10*, p. 11.

19 DBCDE, *Submission 10*, p. 10.

20 Mr Peter Harris, Secretary, DBCDE, Transcript of Evidence, Sydney, 16 April 2012, p. 49.

available', but for higher risk investments 'the amounts are in the tens of millions or less depending on the state of development'.[21]

6.22 Against this background, the department concluded that:

> Despite government sponsorship the NBN would be considered high risk for commercial finance sources because of project implementation risk and concerns about the telecommunications policy objectives driving the project.[22]

6.23 In terms of the *returns required on investment*, the DBCDE explained that required returns are 'highly sensitive to the state of development of the investment', with early stage investments requiring 'returns in the range 15-25 per cent'. However, as an investment develops and planned targets are achieved, 'the risk premium will reduce'. For the NBN, this involves:

> ...completion of the initial rollout, planned construction costs being achieved, services being taken up at the projected rates, data utilisation increasing consistent with historic trends and the regulatory framework for operation being locked in following the Productivity Commission review set out in the NBN legislation. When all those conditions have been satisfied, the returns required reduce to the 8-10 per cent range.[23]

6.24 The department again pointed to the *Implementation Study* on this matter:

> Private investors value certainty and demand high risk premiums to compensate for perceived uncertainty in an investment business case. In the case of the NBN, this is expected to translate into private sector investors demanding returns in the early phases of NBN Co's network roll-out in the vicinity of 15 to 25 percent—well above expected project returns. To accommodate such financing, Government would need to accept a lower return on its equity, while implicitly bearing most of the risk given its commitment to the success of the NBN.[24]

6.25 Against this background, the department concluded that, 'in the period of the rollout private share investment would be the most expensive source

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21 DBCDE, *Submission 10*, p. 10.

22 DBCDE, *Submission 10*, p. 10.

23 DBCDE, *Submission 10*, p. 10.

24 McKinsey & Company/KPMG, *Implementation Study*, May 2010, p. 41—quoted by DBCDE, *Submission 10*, pp. 11-12.

of finance, achievable only through reduced returns on the public investment or major policy compromises'.[25]

6.26 Finally, in terms of the *level of control required by the investor*, the DBCDE explained that in making investments the private sector assumes risk 'which it would require mechanisms to mitigate'. Mechanisms here could include 'varying levels of control of management or in the absence of that, mechanisms that limit the flexibility of those that do have control'.[26]

6.27 The department concluded that, in the case of NBN Co, 'which has been established by government for the purpose of achieving important social and economic policy objectives', judgements taken in the course of the rollout 'in response to changes of circumstance or policy' could therefore be 'in conflict with the less complex commercial instincts of investors'.[27]

Private Equity Funding Timeframe

6.28 In its submission, the DBCDE concluded that:

> Consistent with the legislative framework for the ownership of NBN Co there are very limited options for bringing forward private investment in NBN Co.[28]

6.29 The committee notes the possibility of options, while 'very limited', for bringing forward private equity investment in funding the NBN and therefore remains interested in monitoring this issue. Further, the committee observes that the existing legislative framework and 'very limited options' for bringing forward private investment in NBN Co need not slow progress in gauging investor interest in the NBN or in exploring the cost/benefit of different capital structures for the NBN.

6.30 The committee also notes the DBCDE's broader definition of private 'equity' as also encompassing private 'borrowing':

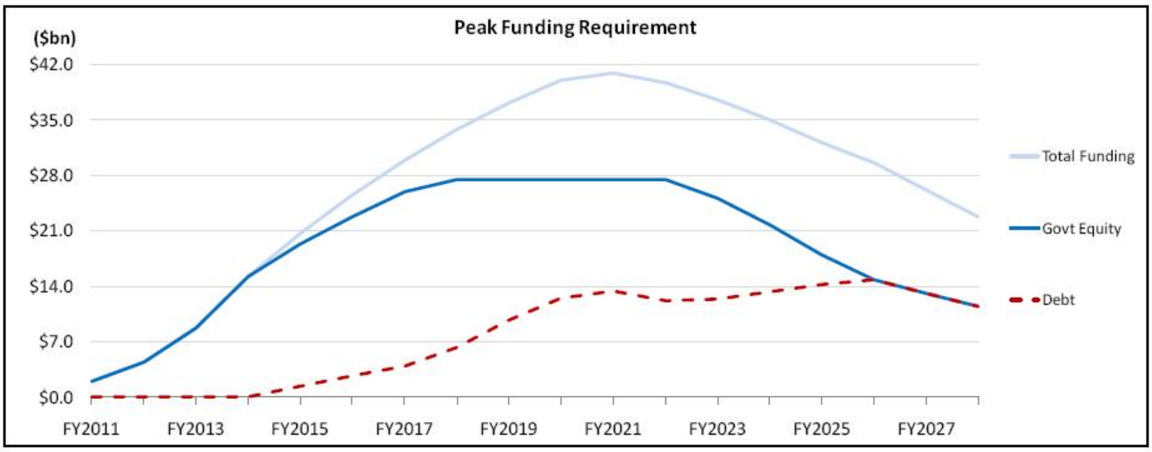
> Typically equity is considered to be share capital in a company, which is consistent with the Macquarie Dictionary definition 'the interest of a shareholder of common stock in a company'. A broader definition is also provided by Macquarie 'those funds of a company which are raised by borrowing from proprietors and external sources'.[29]

25 DBCDE, *Submission 10*, p. 10.
26 DBCDE, *Submission 10*, p. 10.
27 DBCDE, *Submission 10*, pp. 10-11.
28 DBCDE, *Submission 10*, p. 11.
29 DBCDE, *Submission 10*, p. 11.

6.31 As the department further clarified on this point, while the 'introduction of any non-Commonwealth direct interest in the share capital of NBN Co would be inconsistent with the existing legislative provisions and social policy objectives ... borrowings [debt financing arrangements] on the other hand are not precluded by the legislative framework'.[30] This matter is further discussed below.

6.32 Figure 6.2 provides an outline of NBN Co's funding profile in terms of debt and equity funding through to 2028.

Figure 6.2 NBN Co Funding Profile (debt and equity) to FY2028 ($billion)



Source *NBN Co, Corporate Plan 2011-2013, p. 141*

Debt Financing

6.33 The Government's *Statement of Expectations*[31] specifies that 'NBN Co should seek to raise debt capital at the earliest opportunity it is able without external support'.[32] The NBN Co *Corporate Plan 2011-13* assumes that maximum debt financing will start from 2015.[33] As the DBCDE noted:

> NBN Co's Corporate Plan 2011-13 plans for the introduction of debt financing mid way through the rollout, that is commencing in 2015. This plan, which is supported by the independent analysis of Greenhill Caliburn and KPMG, is based on this timing being the earliest that the revenue generated by NBN Co would provide

30 DBCDE, *Submission 10*, p. 11.

31 Australian Government, *Statement of Expectations*, 20 December 2010—the Statement of Expectations provides an outline of the Government's policy implementation objectives for the NBN, as well as its response to the *Implementation Study*.

32 DBCDE, *Submission 10*, p. 11.

33 NBN Co, *Corporate Plan 2011-2013*, p. 141.

> lenders with confidence that interest charges can be met and the borrowings repaid at the expiration of the term.[34]

6.34 With debt financing on the radar in 2015, the committee was interested to explore NBN Co's progress to date on debt financing arrangements. The Secretary of the DBCDE responded that:

> ...in debt financing, there are conditions on the kinds of bonds that are raised which will be of great interest and will therefore shift the profile required from particular financiers. So they will be thinking that through at the moment ... I guess those ultimately will be questions that the committee will be interested in, but my own view is that it is a little too early now to be able to even ask a market participant because that will be their first question: 'Well, what kind of bond raising are we talking about here?'.[35]

6.35 The committee was also interested to hear from Mr Quigley, CEO of NBN Co, that:

> In the company, we have not had any discussions on debt financing yet.[36]

6.36 The committee notes that NBN Co's *Corporate Plan 2011-2013* refers to an 'estimate of $13.4 billion of debt funding', over the period to June 2021.[37] The plan also states that, from 2023 onwards, this would provide 'a mechanism for repayments of equity over time'.[38]

6.37 The *Corporate Plan 2011-2013* also assumes that 'debt funding equivalent to 33% of total funding required over the period FY2011-FY2021 would be raised', noting that, 'if actual debt raised at the time was lower than projected, then Equity Funding by Government would need to be increased'.[39] In terms of the 'Achievability of debt funding', the *Corporate Plan 2011-2013* further states:

> Critical to NBN Co's ability to raise external funding without explicit support by Government will be the opinions of debt providers on the Company's achievements, roll-out timeliness and connections uptake, which will form the key metrics of credit quality ...

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34 DBCDE, *Submission 10*, p. 11.
35 Mr Harris, DBCDE, Transcript of Evidence, Sydney, 16 April 2012, p. 50.
36 Mr Mike Quigley, CEO, NBN Co, Transcript of Evidence, Sydney, 16 April 2012, p. 50.
37 NBN Co, *Corporate Plan 2011-2013*, p. 141.
38 NBN Co, *Corporate Plan 2011-2013*, p. 141.
39 NBN Co, *Corporate Plan 2011-2013*, p. 24.

> Market capacity, and the risk appetite of debt investors, might limit the amount of debt that the Company can actually raise. This would require revising the funding plan at the time to assume a higher level of Government equity.
>
> There is no assurance that this level of debt could be issued. The level and timing of debt will be the major financial risk that NBN Co will continuously assess.[40]

6.38 This raises a number of issues—in particular, it would appear to be critical for NBN Co to start considering its debt financing arrangements as soon as possible, given:

- the fast-approaching timeframe of 2015 for the commencement of debt financing
- that debt financing is projected to constitute 33 per cent of total NBN Co funding required over the period FY2011-FY2021[41]
- that if actual debt raised at the time is lower than projected, then equity funding by Government might need to be increased[42]
- that the 'level and timing of debt' has been identified as a 'major financial risk that NBN Co will need to continuously assess'.[43]

6.39 At the time of drafting this report, NBN Co's new corporate plan had not yet been publicly released. However, as noted in Chapter 2, on 16 April 2012, the NBN Co informed the committee that it would be revising the NBN rollout targets contained in its *Corporate Plan 2011-2013*. Targets would be revised and published through the release of a new corporate plan to the Government by the end of May 2012.[44]

6.40 The committee will therefore be interested if there are any revisions in the new corporate plan relating to debt financing. Any revisions to NBN Co's rollout targets in the new corporate plan will need to be closely monitored as any delays in this regard may in turn push back the projected timeframe for debt financing arrangements, with possible implications for Government equity funding.

40 NBN Co, *Corporate Plan 2011-2013*, p. 142.
41 NBN Co, *Corporate Plan 2011-2013*, p. 24.
42 NBN Co, *Corporate Plan 2011-2013*, p. 24.
43 NBN Co, *Corporate Plan 2011-2013*, p. 142.
44 Mr Quigley, Transcript of Evidence, 16 April 2012, p. 47.

6.41 The committee will be interested to investigate NBN Co's progress in this area over the next reporting period, once the new corporate plan has been released.

Concluding Comments

6.42 The committee remains interested in examining the points of entry for private investment in the NBN—both in the form of equity and debt funding—to ensure a maximum return on the Government's investment is secured on behalf of Australian taxpayers.

6.43 The committee concludes that, given the significance of debt financing arrangements to its future funding mix, NBN Co should progress consideration of this matter as a priority. Further, any revisions to NBN Co's rollout targets will need to be closely monitored as any delays in this regard may push back projected timeframes for debt financing arrangements and private equity engagement (in the form of a direct interest in the share capital of the NBN), with possible implications for Government equity funding.

6.44 The committee also notes that, while the existing legislative framework for the NBN suggests that there are 'very limited options for bringing forward private investment in NBN Co',[45] this need not slow progress now in exploring the cost/benefit of different capital structures for the NBN.

6.45 In addition, given that the opinions of debt providers on NBN Co's achievements, rollout timeliness and connections uptake will form the 'key metrics of credit quality' critical to its ability to raise external funding,[46] NBN Co will need to ensure comprehensive performance reporting documentation on these areas.

6.46 These matters will continue to be examined by the committee over the next reporting period.

Recommendation 12

6.47 **While noting possible revisions in this area in NBN Co's next corporate plan, the committee recommends that NBN Co progress its consideration of debt financing arrangements as a priority.**

45 DBCDE, *Submission 10*, p. 11.

46 NBN Co, *Corporate Plan 2011-2013*, p. 142.

Telstra Workforce Issues

Background

In implementing structural reform of the telecommunications industry, the Government's NBN policy will have a significant impact on Telstra as the highly integrated and dominant industry incumbent.[47]

6.48 The Binding Definitive Agreements between NBN Co and Telstra form the basis of Telstra's participation in assisting with the rollout of the NBN.[48] In support of these agreements, the Government has committed to providing $100 million to Telstra to assist it in the retraining and redeployment of Telstra employees affected by these reforms to the structure of the telecommunications industry.[49]

6.49 Against this background, the committee continues to be interested in Telstra workforce issues.

First and Second Reports

6.50 The First Report signalled the committee's intention to examine workforce issues related to the rollout of the NBN. However, as a range of key agreements concerning the NBN were still being finalised by the various parties at the time of completion of the first reporting period, such as the NBN Co agreement with Telstra, the committee indicated that it would examine workforce issues over its second reporting period.[50]

6.51 The committee duly considered workforce related matters in its Second Report, focusing on the Telstra Retraining Funding Deed (RFD). The committee was particularly interested in the terms of the RFD.[51] However, the RFD had not yet come into force at the time of the second review[52] and therefore many of the issues that the committee wished to explore had to be carried over. It was concluded that 'more work need[ed] to be done in

47 JCNBN, *Review of the Rollout of the National Broadband Network: Second Report*, November 2011, p. 34.

48 NBN Co, 2011, *NBN Co and Telstra Sign Binding Definitive Agreements*, media release, 23 June.

49 Conroy S (Minister for Broadband, Communications and the Digital Economy) and Wong P (Minister for Finance and Deregulation), 2012, *Definitive agreements between NBN Co and Telstra come into force*, media release, 7 March.

50 JCNBN, *Review of the Rollout of the National Broadband Network: First Report*, August 2011, p. vi.

51 JCNBN, *Review of the Rollout of the National Broadband Network: Second Report*, November 2011, p. 49.

52 The RFD came into force when NBN Co's Binding Definitive Agreements with Telstra commenced on 7 March 2012, DBCDE, *Submission 10*, p. 4.

detail' on workforce related matters and that investigation of this matter would therefore be continued over the third reporting period.[53]

Current Report

6.52 Following the Second Review, the committee was interested in more closely examining the following issues:

- the Telstra Retraining Funding Deed (RFD)
- the Telstra Training Plan under the RFD
- Telstra's workforce composition
- consultation arrangements under the Telstra Stakeholder Management Plan
- reporting requirements under the RFD
- projected employment in terms of the NBN project.

Telstra Retraining Funding Deed

6.53 The Binding Definitive Agreements between NBN Co and Telstra form the basis of Telstra's participation in assisting with the rollout of the NBN.[54] The agreements came into force on 7 March 2012.

6.54 In support of these agreements, the Government committed to provide $100 million to Telstra under the Retraining Funding Deed (RFD) to assist it in the retraining and redeployment of Telstra employees affected by these reforms to the structure of the telecommunications industry.[55] The RFD is set to conclude in June 2019.[56] While the term of the RFD is for eight years, Telstra may request an extension of a further three years.[57]

6.55 Telstra also highlighted its commitment to ongoing training and development of its employees, outside of the RFD:

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53 JCNBN, *Review of the Rollout of the National Broadband Network: Second Report*, November 2011, p. iv.

54 NBN Co, 2011, *NBN Co and Telstra Sign Binding Definitive Agreements*, media release, 23 June.

55 Conroy S (Minister for Broadband, Communications and the Digital Economy) and Wong P (Minister for Finance and Deregulation), 2012, *Definitive agreements between NBN Co and Telstra come into force*, media release, 7 March.

56 DBCDE, *Submission 3.2*, Second Review of the JCNBN, Answer to Question on Notice No. 9, p. 1.

57 DBCDE, *Submission 10*, p. 5.

> It is important to note that, in terms of our investment in our people, the $100 million, although substantial, only makes up a small proportion of the amount we will spend on training, learning and development over the NBN rollout period.[58]

6.56 The RFD between the Commonwealth and Telstra came into force when the Binding Definitive Agreements commenced in March 2012.[59] The RFD sets out the terms by which the Government will provide this funding to Telstra to retrain certain staff over an eight-year period. The objectives of the deed are:

- To support the availability of an appropriately trained workforce for the NBN; and
- For Telstra to establish a retraining arrangement for its staff who may otherwise have faced a redundancy as a consequence of the rollout of the NBN, thereby creating greater value for Telstra as part of the overall Definitive Agreements package than the Commonwealth's cash contribution.[60]

6.57 The RFD sets out how Telstra will identify employees eligible for retraining in NBN related technical, process and system activities; the scope of training courses to be made available; the standards and quality that must be met; and the timing of training.

6.58 The deed operates by identifying an Automatically Eligible Workgroup (AEW) and other employees who may be determined to be eligible. The AEW group has priority for accessing the retraining and includes the Telstra:

- copper and hybrid fibre coaxial (HFC) based field workforce which undertakes installation and maintenance and construction and maintenance activity on Telstra's Customer Access Network;
- direct field support workforce which conducts copper/HFC based field workforce support, including workforce management, workforce and resource planning, and construction program management;
- support of copper/HFC operations workforce which provides design of products, management of damages, network integrity, plant assigning, customer network improvements and contract management; and

58 Dr Tony Warren, Group Managing Director, Corporate Affairs, Telstra, Transcript of Evidence, Sydney, 16 April 2012, p. 33. Telstra advised the committee that it has a training budget of $46 million per annum, Telstra, *Submission 14*, Answer to Question on Notice No. 4, p. 2.

59 DBCDE, *Submission 10*, p. 4.

60 DBCDE, *Submission 10*, p. 4.

- wholesale copper service workforce which provides the interface between retail service providers and Telstra in relation to copper services.[61]

6.59 The remaining eligible employees are ‘those employees or a class of employees who may face redundancy unless retrained for redeployment as a consequence of the decommissioning of the copper network and the HFC network broadband capability being deactivated’.[62]

6.60 Telstra advised that the average age of the group within Telstra Operations who are automatically eligible for retraining is 45—consistent with the average age of the broader Telstra Operations workforce, which is 44.[63]

6.61 Telstra provided useful background on the history of the agreement and the workforce implications for Telstra of the rollout of the NBN:

> When Telstra commenced negotiations with the government and NBN Co. on our potential involvement in the NBN, we were very conscious that the structural changes being imposed on the telco sector, and on us in particular, would have significant implications for our business and our workforce. This concern was one of the reasons why we sought the inclusion of the retraining funding deed in the definitive agreements. Government decisions around the NBN will have a direct long-term impact on the way Telstra operates and will have practical implications for our workforce.[64]

6.62 Telstra also pointed to other, non-NBN-related, potential impacts on its workforce composition, including:

> ...the global changes to the telco sector, for example, the movement from simple connectivity to the provision of more complex network applications and services; the changing usage patterns of our customers, for example, the greater use of data versus voice; the associated convergence of voice and data networks; the increasing number of our customers choosing to manage their interactions with us and with other carriers online; and the activities underway within Telstra to simplify our business processes to drive out complexity and to improve customer service.[65]

61 DBCDE, *Submission 10*, pp. 4-5.
62 DBCDE, *Submission 10*, p. 5.
63 Telstra, *Submission 14*, Answer to Question on Notice No. 7, p. 4.
64 Dr Warren, Telstra, Transcript of Evidence, Sydney, 16 April 2012, p. 32.
65 Dr Warren, Telstra, Transcript of Evidence, Sydney, 16 April 2012, p. 33.

6.63 The number of employees in the AEW group as at 1 March 2012 was 6255 employees.[66] As at 31 December 2012, Telstra had a total of 28 853 employees (excluding domestic controlled entities, offshore controlled entities, and agency and contract labour)—see Table 6.1.

Table 6.1 Telstra Workforce Composition (as at 31 December 2012)

	Full time equivalent employees
(1)Telstra-paid employees[a]	**28 853**
Domestic controlled entities	4 089
(2)Domestic employees: (1) + Domestic controlled entities	**32 942**
Offshore controlled entities	4 219
(3)Total employees: (2) + Offshore controlled entities	**37 161**
Agency + Contract labour	4 711
(4)Total workforce[b]: (3) + Agency + Contract labour	**41 872**

a Of the Telstra paid employees (1), 15,257 FTE are in Operations, 8,625 FTE are in Customer Sales and Service and the remaining 4,971 FTE are in Corporate Areas (including Marketing and Products, Finance, HR, Business Support & International)

b Total workforce includes those employees on long-term extended leave

Source *DBCDE, Submission 10, p. 6*

6.64 The committee was interested in the total number of Telstra employees who might potentially fall into the AEW group over the life of the RFD—whether the size of this group might change, depending on how much work Telstra gained over time from the NBN—and also the total number of other Telstra employees who could potentially be determined as eligible for retraining over the life of the RFD. Telstra explained that:

> ...it is a pretty stable pool. I do not think we can extend it terribly much. Obviously if someone else is affected we would bring them in, but we did think pretty long and hard about who the affected employees would be and we are pretty confident that, except for maybe a handful here and a handful there, in broad numbers it is a pretty stable pool. My expectation is that that is a pretty stable pool.[67]

6.65 The committee noted that Telstra employees currently involved in providing access duct work for the NBN were not apparently eligible under the RFD:

> Obviously we have a very big contract with NBN to do duct work and so, to the extent that there are people there, they are not

66 DBCDE, *Submission 10*, p. 5.

67 Dr Warren, Telstra, Transcript of Evidence, Sydney, 16 April 2012, p. 40.

> eligible. We will be doing quite a bit of passive infrastructure work for NBN and those people are not in the eligible work pool.[68]

Telstra Training Plan

6.66 The RFD requires that a Training Plan be developed by Telstra and approved by the DBCDE. The Training Plan is therefore a significant component of the RFD. The initial Training Plan covers a three-year period, with subsequent plans to be lodged six months before the expiry of the previous plan.[69]

6.67 The scope of the Training Plan is to identify the training needs, courses to be developed, approach to course development, training methodology and targets for retraining. Telstra will 'give priority to retraining in NBN-related technical, process and system activities'.[70] Under the terms of the RFD, the Training Plan must use 70 per cent of the funds for accredited training, to be delivered by a Registered Training Organisation (RTO). An RTO must be registered with a state or territory training authority of the National Audit and Registration Agency. This is regarded as an important quality measure under the RFD:

> Telstra staff will be building on their skills and experience with accredited training that can be used towards the achievement of nationally recognised qualifications.[71]

6.68 The committee was interested in how these RTOs will be identified under the RFD. It was explained that:

> Telstra is an Enterprise Registered Training Organisation (RTO), which is an organisation that is registered as an RTO but the principal business of the enterprise is not training and development, yet its primary target learning population are its employees. As such, Telstra will be responsible for the accreditation for a large proportion of the training to be delivered. Actions are in place to ensure that Telstra will have subject matter experts with the requisite training qualifications and industry competency, up skilled to deliver the required training and assess the competency of Telstra employees.
>
> Where external training is required, Telstra will identify suitable RTOs via standard procurement practices.[72]

68 Dr Warren, Telstra, Transcript of Evidence, Sydney, 16 April 2012, p. 41.

69 DBCDE, *Submission 10*, p. 5.

70 DBCDE, *Submission 10*, p. 5.

71 DBCDE, *Submission 10*, p. 5.

6.69 The committee also queried the geographic location of this training delivery, given that eligible Telstra employees are located in many different parts of the country. Telstra responded that it has:

> ...a long history of delivering training to all geographic locations nationally. This training is planned and delivered as part of the "business as usual" training plan. Resources for NBN retraining delivery will be planned on an annual and quarterly basis and factored into the Training Plan to cover the wide geographic area where Telstra employees are located. It is expected that some employees will be required to travel to training in different locations.[73]

6.70 The initial draft Training Plan must be submitted to the DBCDE by 30 April 2012 for approval. Telstra confirmed that it was 'in the process of consulting with employees, with unions and with the government on the detail of the first training plan under the deed' and 'currently on track to lodge the plan with the government by 30 April this year'.[74]

6.71 While the RFD came into force in March 2012, the committee understands that these retraining arrangements are therefore not effectively operational for Telstra staff until the Training Plan is approved by the DBCDE:

> The Retraining Funding Deed came into effect on 7 March 2012. It requires a draft Training Plan be developed and submitted to the Department by 30 April 2012 for approval and for prior and ongoing consultation with unions and the Department on retraining arrangements.
>
> Until Telstra receives approval of the Training Plan from the Department, there is no retraining curriculum to be implemented under the terms of the Retraining Funding Deed.[75]

6.72 This raised a number of issues for the committee. Firstly, as the Training Plan under the RFD was not scheduled to be provided to the DBCDE for approval until 30 April 2012, by which time the committee had concluded its public hearings for the third reporting period, the committee was unable to further investigate the effectiveness of the RFD and Training Plan.

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72 Telstra, *Submission 14*, Answer to Question on Notice No. 6, p. 3.

73 Telstra, *Submission 14*, Answer to Question on Notice No. 6, p. 3.

74 Dr Warren, Telstra, Transcript of Evidence, Sydney, 16 April 2012, p. 33.

75 Telstra, *Submission 14*, Answer to Question on Notice No. 6, p. 1.

6.73 Secondly, the committee was interested in the gap between the RFD coming into force and it actually becoming operational. In particular, the committee was concerned about what might happen to any Telstra employees affected in the interim who may have been deemed eligible for retraining or redeployment under the RFD, if it had been operational. This could mean that opportunities under the RFD were being missed and retraining opportunities were not being pursued.

6.74 Telstra responded that:

> ...the impact of the NBN on our workforce at this stage is not significant because we still have a large bulk of business as usual on the copper network and all the work that still goes on with our IP network and the mobile network and the like. We are really looking at getting our workforce arrangements in place to deal with the NBN as we know more about it. We still do not know a lot about some of the network construction arrangements, who is going to do what, when and where.[76]

6.75 Telstra further explained that:

> As the draft Training Plan is not scheduled to be provided to the DBCDE for consideration until 30 April 2012, and employees are not being affected as yet by the decommissioning of the copper network or the deactivation of the HFC network as a consequence of the rollout of the NBN, there is no retraining curriculum to be implemented under the terms of the Retraining Funding Deed. However, Telstra will consider the circumstances of individual employees, including the potential for redeployment within Telstra's business and to undergo existing Telstra retraining.[77]

6.76 The committee therefore understands that, over this interim period, Telstra will consider the circumstances of individual employees affected by these changes, on a 'case by case basis'.[78] Telstra further emphasised that:

> We have a pretty strong preference for retraining and redeployment rather than redundancy, for obvious reasons. That is the case whether or not we had the retraining fund in place. Obviously that helps, because there is a huge body of retraining that has to happen. But at the moment—and six months ago—we

76 Mr James Shaw, Director, Government Relations, Telstra, Transcript of Evidence, Sydney, 16 April 2012, p. 35.

77 Telstra, *Submission 14*, Answer to Question on Notice No. 3, p. 2.

78 Telstra, *Submission 14*, Answer to Question on Notice No. 1, p. 1.

> are trying as best we can to identify if there are other roles within the company to redeploy those people as they stand. So, as you would know, there are some growth areas and some declining areas anyway, regardless of the NBN. We have been trying to cycle people through and move them out of declining areas and retrain them into other areas ... If a person had a retraining or redeployment option now, it is not like we would wait for the deed to get up and running before we did that; we would be trying very hard now to get them across.[79]

6.77 The committee was also concerned that there might be some Telstra employees affected by redundancies currently taking place as a result of job offshoring who could have been eligible to be retrained, if the RFD had been operational. The committee was interested in how that group of people might be included in the short term. Telstra responded that:

> On March 26, 2012, employees working within the Switch Data Network function were notified that three full-time positions in that area would be made redundant.
>
> Given the draft Training Plan is not yet approved, and that these employees were not impacted by the decommissioning of the copper network or the deactivation of the HFC network as a consequence of the rollout of the National Broadband Network (NBN), Telstra considered the circumstances of these three employees on a case by case basis.[80]

6.78 Telstra further commented, with regard to work within the Network Applications and Services business 'where 255 roles were proposed to be made redundant over a three year period' (as announced in early December 2011), that:

> ...these employees do not have the option of training under the RFD given the draft Training Plan has not been approved by the Department. However, other opportunities are being considered for these employees. This includes applying for fifty newly created or vacant jobs within the NA&S group, where affected employees are given preference. Additional redeployment opportunities within Telstra are also being sought and some employees have already transitioned to these new opportunities.[81]

79 Dr Warren, Telstra, Transcript of Evidence, Sydney, 16 April 2012, pp 35-36.

80 Telstra, *Submission 14*, Answer to Question on Notice No. 1, p. 1.

81 Telstra, *Submission 14*, Answer to Question on Notice No. 4, p. 2.

6.79 A related issue of interest to the committee was the amount of contracted work Telstra had obtained from NBN Co, as this obviously had implications for Telstra's workforce. Telstra noted that:

> Apart from an early trial site in Brunswick, no. Telstra does not have any design construction work from NBN at this stage ... Clearly, commercial discussions between us and NBN have to proceed before that happens, but we are very keen to get that work for obvious reasons.[82]

6.80 Telstra further commented that:

> As we migrate customers to the NBN and decommission our copper access network, the network maintenance task that we are currently doing will diminish with consequences, unfortunately, for our workforce. We have no certainty of obtaining a construction installation or maintenance contract with NBN Co. and this also has implications for our workforce. However, we continue to seek such work from NBN Co. and believe we have much to offer the project from a design, construction or maintenance perspective.[83]

Job Offshoring

6.81 In the second review period, the committee sought information concerning a number of Telstra employees who had apparently had their jobs moved offshore.[84] As part of this third review, Telstra advised the committee, through the department, that:

> Telstra is committed to recruiting and retaining the best talent and is one of Australia's largest employers. Telstra does not have any policy to recruit overseas workers. However, Telstra continually reviews its business to determine how best it can serve its customers. This means that we may work with other companies in the telecommunications industry to leverage their expertise while we focus more on our core business. From time to time this means that we restructure the business and this can result in roles becoming redundant.

82 Dr Warren, Telstra, Transcript of Evidence, Sydney, 16 April 2012, pp. 36-37.

83 Dr Warren, Telstra, Transcript of Evidence, Sydney, 16 April 2012, p. 32.

84 DBCDE, *Submission 3.5*, Second Review of the JCNBN, Answer to Question on Notice No. 5, p. 5.

> Where roles have been made redundant as a result of a restructure, significant effort is made to reassign or redeploy affected employees to suitable roles across Telstra.[85]

6.82 The committee continues to monitor trends in this area, particularly given that the RFD will provide a mechanism to assist in the retraining and redeployment of Telstra employees affected by the NBN rollout.

Consultation

6.83 An important aspect of the Telstra RFD is consultation with employees and unions. Telstra has prepared a Stakeholder Management Plan that identifies employees and unions as key stakeholders. Telstra will meet quarterly with unions to discuss retraining.[86]A representative from the department will also attend these meetings as an observer. The committee understands that consultation meetings with the unions have already occurred—on 4 November 2011 and 19 March 2012.[87]

Reporting Requirements under the Retraining Funding Deed

6.84 Under the RFD, Telstra must maintain full and accurate accounts and records of the conduct of the retraining, the use of funds, and progress against the training targets and Training Plan. Telstra will provide an annual budget and provide an audited annual financial report.[88] Telstra must also provide six-monthly reports to the DBCDE on progress against the Training Plan, and a more detailed annual report on progress against the Training Plan.[89]

6.85 In terms of accountability for the oversight and implementation of the RFD, Telstra explained that the Human Resources department within Telstra implements the RFD and that the NBN Transition Team within Telstra is responsible for its oversight.[90]

National Broadband Network Employment Projections

6.86 The committee was interested in the level and value of employment to be created through the building and operation of the NBN, particularly in the

85 DBCDE, *Submission 10*, p. 6.

86 DBCDE, *Submission 10*, p. 5.

87 DBCDE, *Submission 10*, p. 5.

88 DBCDE, *Submission 10*, p. 5.

89 JCNBN, *Review of the Rollout of the National Broadband Network: Second Report*, November 2011, p. 49.

90 Telstra, *Submission 14*, Answer to Question on Notice No. 5, p. 3.

context of the Telstra workforce retraining arrangements under the RFD. This employment includes direct NBN Co employment and NBN Co's purchase of inputs for the rollout, as well as related companies and industries commencing to deliver applications and services over the NBN infrastructure and the flow-on effects to the businesses with which these firms interact.

6.87 Given that the purpose of the RFD is to assist in the retraining and redeployment of Telstra employees, to prepare them to work on NBN related activities, forward projections concerning the scale and composition of this employment market are of significance.

6.88 Initial estimates prepared by the Australian Government in developing the NBN policy indicated that the NBN would 'support up to 25 000 local jobs every year, on average, over the life of the project, with up to 37 000 jobs at its peak'.[91] These figures include jobs created in related sectors that will support or deliver services over the NBN.

6.89 The committee understands that NBN Co has since established a workforce development group, which has undertaken an assessment of the tasks involved in the rollout, the skills required and the corresponding demand and supply for employment during the rollout construction.[92] The DBCDE submission noted that NBN Co has forecast direct employment demand for total employment in the construction phase of 16 000 to 18 000 jobs at peak of construction, with five key roles constituting some 80 per cent of forecast workforce demand:

- Labourer (5500)
- Earthmoving plant operator (2300)
- Road traffic controller (900)
- Cabler (3000)
- Telecommunications lineworker (1100)[93]

6.90 An important aspect of NBN Co's job requirements is that the rollout of the NBN is dispersed across Australia, providing opportunities for local employment, particularly during the construction phases. The DBCDE submission further notes that NBN Co's analysis for the construction of the NBN 'has found there are enough people in the industry to meet the

91 DBCDE, *Submission 10*, p. 7.

92 DBCDE, *Submission 10*, p. 7.

93 DBCDE, *Submission 10*, p. 7.

skills requirements for the construction of the network' so that this activity should not contribute to skills shortages.[94]

6.91 In terms of its direct workforce, NBN Co had 1496 employees as at 26 March 2012, and the committee understands that NBN Co is planning to employ up to 2800 employees during the peak of the rollout.[95] Table 6.2 provides details of NBN Co's workforce composition as at December 2011.

Table 6.2 NBN Co Workforce Composition

NBN Co headcount	**December 2011 (actual)**
Total operations staff	1 054
Total selling, general and administrative staff	301
Total headcount (including contractors)	1 355[a]

a This comprised 1,317 employees, 19 contractors and 19 labour hires. This total is an increase of 449 from 30 June 2011 and 774 from 31 December 2010.

Source *Shareholder Ministers, 'Performance Report to 31 December 2011', Submission 12, p. 16.*

6.92 During 2011, NBN Co awarded a range of contracts totalling some $4 billion, the majority of which were for Australian based manufacturing and services, leading to direct new employment of approximately 700 to 1,000 new jobs.[96] As the DBCDE noted, while procurement policy is a commercial matter the company, NBN Co is expected to 'actively promote opportunities, where possible, for local enterprises', including seeking 'local content and sourcing arrangements in its major contracts'.[97]

Concluding Comments

6.93 The committee notes Telstra's statement that it 'takes its responsibilities to properly support its employees very seriously. Negotiating the retraining funding deed, our efforts to redeploy staff and our generous redundancy provisions are, we believe, examples of this seriousness.'[98]

6.94 As the Telstra Training Plan under the RFD was not scheduled to be provided to the DBCDE for approval until 30 April 2012,[99] by which time the committee had concluded its public hearings for the third reporting period, the committee was unable to fully explore the effectiveness of the RFD and Training Plan. The committee will therefore investigate this

94 DBCDE, *Submission 10*, p. 7.
95 DBCDE, *Submission 10*, p. 7.
96 DBCDE, *Submission 10*, p. 7.
97 DBCDE, *Submission 10*, p. 8.
98 Dr Warren, Telstra, Transcript of Evidence, Sydney, 16 April 2012, p. 33.
99 Telstra, *Submission 14*, Answer to Question on Notice No. 3, p. 2.

matter in more detail over the next review period, including any impacts in terms of the gap between the RFD coming into force and it actually becoming operational.

6.95 Over future reporting periods, the committee will be interested to monitor progress under the Telstra RFD in supporting the availability of an appropriately trained workforce for the NBN and the numbers of Telstra employees retrained/redeployed and successfully transitioned over into the NBN sector who may otherwise have faced a redundancy as a consequence of the rollout of the NBN. Any revisions to NBN Co's rollout targets will also need to be monitored as this may affect RFD arrangements and impact on the retraining and redeployment of Telstra employees.

6.96 The committee will also continue to monitor the composition of the AEW—whether the size of the group might change, depending on how much work Telstra gained over time from the NBN—and whether other Telstra employees might also be eligible under the RFD. The committee will be interested in the reporting documentation produced by Telstra under the RFD. In this regard, the committee notes that it would be useful to establish some form of public reporting on progress under the RFD, if this is not already envisaged.

6.97 To ensure that the Australian workforce, more generally, has the skills-set to be able to implement and maintain the NBN into the future, the committee finds that NBN Co may need to better communicate major areas of emerging training need and workforce demand in this regard.

6.98 In its First Report, the committee recommended that the Minister for Broadband, Communications and the Digital Economy publish a detailed statement outlining the job benefits of the NBN rollout.[100] In its response to the report, the Government provided such a statement, entitled 'Job benefits'.[101] Given the significant level and value of employment to be created through the building and operation of the NBN and in the context of the Government's support for the retraining and redeployment of Telstra employees affected by these telecommunications reforms, it would be useful for the Government to publish a detailed statement on this matter on an annual basis.

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100 JCNBN, *Review of the Rollout of the National Broadband Network: First Report*, August 2011, p. xviii.

101 Australian Government, *Response to the Committee's First Report of 31 August 2011*, February 2012, pp 19-21.

Recommendation 13

6.99 **The committee recommends that the Department of Broadband, Communications and the Digital Economy publicly disseminate a reporting document on annual progress under the Telstra Retraining Funding Deed.**

Recommendation 14

6.100 **The committee recommends that NBN Co publicly communicate major areas of emerging training need and workforce demand with regard to the rollout of the National Broadband Network, to assist with future Australian workforce planning in this sector.**

Recommendation 15

6.101 **The committee recommends that the Minister for Broadband, Communications and the Digital Economy publish, on an annual basis, a detailed statement outlining the direct and indirect employment benefits of the National Broadband Network (NBN) rollout, including in terms of local/regional employment and major areas of emerging NBN workforce demand.**

Robert Oakeshott MP
Chair

19 June 2012