

Private Equity Engagement and Workforce Issues

Introduction

- 6.1 The committee has agreed 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)
 - workforce issues in the context of the rollout of the NBN
- 6.2 These issues were identified for future inquiry in the committee's First Report and reported on in its Second Report and Third Report.

Private Equity Engagement

Background

- 6.3 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. This section of the report therefore considers:
- timeframes for private equity engagement in funding the NBN
 - NBN Co's debt financing arrangements

- 6.4 Government funding of the NBN over the rollout period, under the equity agreement between the Government and NBN Co, is discussed in Chapter 2.

Private Equity Engagement Timeframe

- 6.5 As in previous committee reports, there was continued interest over the Fourth Review period in whether 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. In particular, there was interest in clarifying to what extent a timeframe for private equity engagement in funding the NBN was influenced by:
- risk – required rates of return to government on its investment; or
 - government policy objectives and legislation, and learning and adapting processes on the part of government and NBN Co at this stage of the project.
- 6.6 In terms of where the balance might be in this equation, the Department of Broadband, Communications and the Digital Economy (DBCDE) commented that:
- In the adapting and learning category... the government clearly has a policy objective in mind with the NBN. It has a detailed set of instructions that accompany the statement of expectations and a series of policy decisions and the parliament has a set of instructions for the company, with legislation. If a private investor convinced itself that it was prepared to take the risk and accept what is impliedly a low rate of return for long-term strategic gain purposes and did want to make an investment then the company, first, and then the government as 100 per cent owner, second, would both need to satisfy themselves that this owner would not get in the way of, if you like, the statement of expectations and parliament's own intentions as expressed in legislation.¹
- 6.7 This matter was further queried on the basis that, if a private entity were willing to take on the risk of the NBN project at a potentially earlier stage than had previously been assumed, whether there would still be a level of caution, given this 'adapting and learning' process. The department responded that, '[b]efore you get to the adaptation and learning... the government would want to be satisfied that it was not risking any basic

1 Mr Peter Harris, Secretary, Department of Broadband, Communications and the Digital Economy (DBCDE), Transcript of Evidence, Canberra, 26 June 2012, p. 10.

policy compromise through this relationship, such as uniform pricing and rollout priorities and so on. There are a whole lot of quite fundamental points you would want to be reassured of before you got to that point'.²

- 6.8 The department further clarified that the level of control required by a private equity investor was also an issue:

Historically, being a minority investor is not a comfortable place for private equity in these sorts of firms, because effectively they are passively stumping up capital and taking the risks but are not able to influence at all the direction of strategic change, so private equity tends not to be terribly comfortable taking those sorts of positions. That is why we think that it is pretty unlikely in the circumstances that anyone would take the risk and that, even if they did, they would then have to satisfy themselves that they would be prepared to follow the directions of the government of the day.³

- 6.9 It was then queried whether this matter may have been ruled out before it had been tested – whether in fact a private equity investor might be willing to take on this risk in terms of the level of business control. Mr Peter Harris, Secretary of the DBCDE, responded:

I would go on the record as saying that would be my advice to government. My advice would be: be very wary of this. Even if they have convinced themselves that the risk is sufficient for them to take it up, you then have to satisfy yourself. I would say that the risk to the project would be significant in those circumstances – you would end up with an uncomfortable partner, and that is not a great outcome for any party to set up... I doubt, because of the practical circumstances I have described, that we would like to see much private equity interest in the NBN Co. as a business through the bulk of the rollout period, simply because of that risk.⁴

- 6.10 There was further interest in the scenario where, if a private equity investor proposed investing in the NBN, whether there would still be an impediment to private equity engagement at an earlier timeframe for reasons other than rate of return. Mr Harris responded, '[t]hat is right... When I used the term 'risk' a little earlier I was not referring to people's views about the efficacy or otherwise of the business plan... When I say

2 Mr Daryl Quinlivan, Deputy Secretary, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, p. 11.

3 Mr Harris, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, p. 10.

4 Mr Harris, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, pp 10 and 11.

risk, it is what I call partnership risk. You would have to convince yourself as an investor that you are prepared to go along with the senior partner's decisions, continuously. That is a hard thing to do'.⁵

- 6.11 This led to some discussion on private-public partnerships (PPPs), and the example of whether private equity investors who were willing to take on that particular risk in terms of level of control over a project reflected the nature of many existing PPPs. On the topic of PPPs and the NBN project, Mr Harris commented that:

It is more a question of both parties being confident they are prepared to hold hands, as it were, through a period of multiple years of – I guess I have to use the term – risk taking together. That is quite difficult to crystallise. As you know, the engagement rule was switched very quickly from being conceptual to legal. Then you start to draw up the obligations that each party has, and because the NBN Co. is structured under legislation it will have very little room to move. In practice, the ownership structures for NBN Co., as you know, have been established by the parliament and, therefore, we live within those terms as well as within the statement of expectations and intentions of the ministers.⁶

- 6.12 As to whether this made the NBN project different from other PPP projects, Mr Harris observed that:

...most of those are project based; therefore, we can vary the terms of a tender or a contract to suit the interests of both parties if both parties are happy whereas legislation [as in the NBN project]... has to return to the parliament and people in the parliament have to be satisfied that the changes are acceptable. It is a long and drawn out process and one that tends not to be consistent with commercial time frames. I know they have weaknesses but I am probably, on balance, a supporter of PPPs when used in the right circumstances – and legislation tends not to be part of that.⁷

5 Mr Harris, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, p. 11.

6 Mr Harris, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, p. 11.

7 Mr Harris, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, p. 11.

Debt Financing

- 6.13 The Government's Statement of Expectations⁸ specifies that 'NBN Co should seek to raise debt capital at the earliest opportunity it is able without external support'.⁹ NBN Co's Corporate Plan 2012-15 assumes initial debt-raising in 2015.¹⁰
- 6.14 NBN Co's Corporate Plan 2011-13 referred to an estimate of \$13.4 billion of debt funding over the period to June 2021.¹¹ The new Corporate Plan 2012-15 refers to an estimate of \$13.7 billion of debt funding, over the period to June 2021.¹² The Corporate Plan 2012-15 also assumes that debt funding will contribute 'up to 31% of the total funding to FY2021'.¹³
- 6.15 The Corporate Plan 2012-15 'embeds an assumption of debt-raising, which if successful will provide a mechanism to distribute surplus cash and repay equity over time after the end of the Fibre network Construction period'.¹⁴ The Corporate Plan further states that:

...if actual debt raised at the time was lower than projected, then Equity Funding by Government would need to be increased...

As no assurances can be given that such debt-raising requirements will be met, the capital structure and debt issuance decisions will be determined at the time by the Shareholder Ministers.¹⁵

Concluding Comments

- 6.16 The committee remains interested in the issue of private equity engagement in funding the NBN. Against this background, the committee notes that in the response to the Committee's Third Report the Government commented:

Following completion of the rollout, the government will consider the optimum capital structure for the Company, noting that NBN Co is required to operate within the ownership and

8 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.

9 DBCDE, *Submission 10*, Third Review of the JCNBN, p. 11.

10 NBN Co, *Corporate Plan 2012-15*, p. 80.

11 NBN Co, *Corporate Plan 2011-13*, p. 141.

12 NBN Co, *Corporate Plan 2012-15*, p. 71.

13 NBN Co, *Corporate Plan 2012-15*, p. 80.

14 NBN Co, *Corporate Plan 2012-15*, p. 16.

15 NBN Co, *Corporate Plan 2012-15*, pp 16 and 80.

investment settings determined through the *National Broadband Network Companies Act 2011*.¹⁶

- 6.17 The committee observes that there is also merit, at this point in time, in beginning to gauge investor interest in the NBN and explore the optimum capital structure for the company. The committee has made a recommendation on this matter.
- 6.18 With debt financing on the radar for 2015,¹⁷ the committee also remains interested in NBN Co's progress to date on debt financing arrangements. The committee made a recommendation concerning this area in its Third Report:
- 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.¹⁸
- 6.19 The Government response to the report supported this recommendation, noting that:
- By the time of raising private sector finance, NBN Co will have demonstrated a strong track record in the delivery of its key objectives, established investor confidence in both the rollout and take up of this critical infrastructure, with clear visibility of positive earnings and cashflows.¹⁹
- 6.20 However, the Government response further observed that, 'debt arrangements are subject to market conditions outside of NBN Co and the government's control and will need to be assessed closer to the point that debt is required'.²⁰
- 6.21 The committee again concludes that, given the significance of debt financing arrangements to its future funding mix and the fast-approaching timeframe of 2015 for the commencement of debt financing, NBN Co should progress consideration of this matter as a priority.

16 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, p. 18.

17 NBN Co, *Corporate Plan 2012-15*, p. 80.

18 Joint Committee on the National Broadband Network (JCNBN), *Review of the Rollout of the National Broadband Network: Third Report*, June 2012, p. xxii.

19 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, p. 18.

20 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, p. 18.

- 6.22 The committee will continue its inquiries into these issues over future reporting periods.

Recommendation 6

- 6.23 The committee recommends that the Government:
- seek to gauge investor interest in the National Broadband Network; and
 - investigate the optimum capital structure for the NBN Co.

Workforce Issues

Background

6.24 The committee continues to be interested in workforce issues in the context of the NBN rollout. This section of the report therefore looks at:

- Telstra workforce retraining issues associated with the NBN rollout, including the Telstra Retraining Funding Deed and Telstra Training Plan, and
- NBN workforce planning.

Telstra Workforce Retraining Issues

Telstra Retraining Funding Deed

6.25 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.²¹ The Binding Definitive Agreements between NBN Co and Telstra form the basis of Telstra's participation in assisting with the rollout of the NBN.²²

6.26 In support of these agreements, the Government has 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 structural reforms of the telecommunications industry.²³ The RFD between the Commonwealth and Telstra came into force when the Binding Definitive Agreements commenced in March 2012. The term of the RFD is for eight years, and Telstra can request an extension of a further three years.²⁴

6.27 The objectives of the RFD are 'to support the availability of an appropriately trained workforce for the NBN and to retrain Telstra staff

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

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

23 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.

24 The DBCDE explained that it is 'up to Telstra to put a case to the Commonwealth as to why an extension should be granted', and that, under the RFD, 'the Commonwealth will not unreasonably withhold or delay consent to a request for the term to be extended' — *Submission 14*, Answer to Question on Notice No. 52, p. 3.

who may otherwise face redundancy as a consequence of the rollout of the NBN'.²⁵ In its submission to the inquiry, Telstra emphasised that:

...implementation of [the] Retraining Funding Deed is a critical part of Telstra's agreements with NBN Co and the Government.

We have long understood that the structural changes being imposed on the telecommunications sector, by the roll out of the NBN, would have significant implications for our business, including our people.

As we progressively migrate customers to the NBN and decommission our copper access network, the scale of the network maintenance task will diminish. This will have a direct and long term impact on the way Telstra operates and will have practical implications for our people.²⁶

6.28 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. It operates by identifying two categories of employee: an Automatically Eligible Workgroup (AEW) and another group of employees who may be determined to be eligible. The AEW group 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
- wholesale copper service workforce which provides the interface between retail service providers and Telstra in relation to copper services.²⁷

6.29 The other eligible group comprises those 'employees who Telstra is satisfied may face redundancy over time (if not retrained) as a

25 Telstra Corporation, *Submission 12*, p. 1.

26 Telstra Corporation, *Submission 12*, p. 1.

27 DBCDE, *Submission 10*, Third Review of the JCNBN, pp 4-5.

consequence of the decommissioning of the copper network or the deactivation of the HFC network'.²⁸

- 6.30 As at 1 March 2012 the AEW group numbered 6,255 employees.²⁹ To place this in context, Table 6.1 sets out Telstra's workforce composition as at 30 June 2012.

Table 6.1 Telstra Workforce Composition (as at 30 June 2012)

	Domestic full time staff headcount	Total workforce FTE
Telstra group	30 203	39 972.38
Domestic controlled entities	3 317	3 895.95
Offshore controlled entities		5 210.83
Telstra Corporation	26 886	30 865.60

Source Telstra Corporation, *Submission 12.1*, p. 2.

- 6.31 The committee was interested in the composition of the AEW and whether there might be a group of Telstra employees who could potentially miss out on access to the AEW. Ms Ros Eason, Senior National Industrial Research Officer from the Communications Division (CWU) of the Communications, Electrical and Plumbing Union (CEPU), responded that:

...the core of [the AEW] is the customer field workforce – service delivery and the design and construction functions. We are satisfied at this stage that that is going to be targeted... There may be some questions around the edges, but I do not think there is any question that the core of people who will be targeted by this funding are the people who need to be targeted.³⁰

- 6.32 There was also interest in whether the size of the AEW group might change, depending on how much work Telstra gained over time from the NBN rollout. Telstra explained that:

...the training is for two groups. There is the AEW, and we expect that to stay relatively constant. It is that sort of 6½ thousand mark. But then there is also another group, which is those people who are not within the AEW area but who otherwise may face redundancy as a result of the NBN rollout. At the moment we do not have a good estimate of what that group will be, but then that

28 Telstra Corporation, *Submission 12.1*, p. 3.

29 DBCDE, *Submission 10*, Third Review of the JCNBN, p. 5.

30 Ms Ros Eason, Senior National Industrial Research Officer, Communications Division (CWU), Transcript of Evidence, Canberra, 26 June 2012, p. 3.

group may fluctuate depending on exactly what happens in the future.³¹

- 6.33 This led to queries about the number of Telstra employees in the other eligible group under the RFD. Telstra responded that:

There is provision within the deed that recognises that there might be other groups outside of that eligible group and, therefore, there is capacity to bring them into the retraining funding deed if they are identified as being impacted by the NBN...

That number is not known and it is not specified. There is just an acknowledgement that there may be more and therefore they should have access to the retraining.³²

- 6.34 As Telstra further clarified, 'at a time of very significant change for our business and at a time when we cannot actually predict seven or eight years into the future', there may be 'other employees who would be impacted in addition to those that we can see now'.³³

- 6.35 Another matter of concern was whether there would be employment within Telstra for every person in the AEW who received retraining under the RFD. The CWU commented that 'it is obviously the expectation... that, if Telstra is going to spend money retraining people, we assume that they are going to use them. They do not spend the money to retrain them, then push them out the door to work for their commercial rivals'.³⁴

- 6.36 Mr Daryl Quinlivan, Deputy Secretary from the DBCDE, similarly noted that:

I think that is very much the objective that Telstra has. In fact, that is the rationale underlying the arrangement generally. You might recall that the origins of this were part of the broader agreement with Telstra on the definitive agreements with NBN Co. This was an ancillary agreement and the underlying logic was that payment to Telstra to retrain staff and avoid redundancies created a lot more value for Telstra than the value of the payment and so there was a win for both parties in the transaction that contributed to the value Telstra was realising from the definitive agreements generally. So I think it is very much Telstra's objective that they

31 Mr Julian Clarke, Director, Workplace Relations and Policy, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 29.

32 Mr James Shaw, Director, Government Relations, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 33.

33 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 34.

34 Ms Eason, CWU, Transcript of Evidence, Canberra, 26 June 2012, p. 7.

retain these people within the company and therefore avoid the redundancies, and that is how the value is created for the company.³⁵

- 6.37 However, in response to this matter, Mr Julian Clarke, Director of Workplace Relations and Policy from Telstra, clarified that:

It will depend on the rollout, the extent of what we are asked to do by NBN, how many customers we have at any given time – those sorts of factors...

The purpose of the deed is obviously to retain as many people as we can. We recognise that we have a very skilled workforce at the moment. We want to retain as many of those people as we can and we understand that is the purpose of the retraining. If you are asking me whether I can give a guarantee that every employee who is in the automatically eligible work groups will be retained, it is not something that I could be in a position to do now but more because I do not know what will be happening in the future.³⁶

- 6.38 Similarly, Mr James Shaw, Director of Government Relations from Telstra, added that:

I think it is fair to say that we are not designing this such that we retrain and then just exit employees. We like to keep our employees. We have invested a lot in them. Irrespective of the Commonwealth funding or taxpayers' funding, here under the retraining funding deed, we have invested a lot in our skilled employees out of our shareholders' dollars and we would like to continue to employ those people and utilise their skills to provide services to our customers...

we just cannot guarantee, given what we have in front of us at the moment, that everyone would be retained in the business.³⁷

- 6.39 To further explore this matter, the committee queried whether one of the key performance indicators of the RFD required that a certain percentage of employees in the AEW be employed within Telstra for a certain period of time. Mr Shaw responded, 'I do not believe so, no'.³⁸

35 Mr Daryl Quinlivan, Deputy Secretary, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, p. 9.

36 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, pp 27-28.

37 Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, pp 28 and 33.

38 Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 32.

6.40 This led to interest in whether there was instead an expectation by government about how long employees would retain employment within Telstra as a result of retraining under the RFD. Mr Clarke responded, '[n]ot as far as I am aware', but emphasised that 'it is important to remember the dual purpose that the deed is expressed to have, which is (1) to support the retraining of employees within Telstra and (2) to support more broadly the skilling of the workforce to roll out the NBN'.³⁹ To further clarify this point, Telstra explained that:

The purpose is so that they either continue employment within Telstra or retrain to operate in the NBN environment... In essence, they were saying... 'Here is a Commonwealth contribution of \$100 million to assist in the retraining of workers affected by the NBN, such that they are then skilled up to work in a fibre world, either with Telstra or with other people associated with the NBN'.⁴⁰

6.41 As Mr Shaw further commented, 'the minister and the NBN Co. have both indicated that they expect significant employment during the rollout of the network, that it will generate significant new jobs' and therefore, 'if we look at the market rather than just Telstra for employment, there are a range of opportunities that will arise as a consequence of the rollout of the network itself'.⁴¹

6.42 Noting commercial sensitivities, this then led to a query about the volume of Telstra's NBN related work, as it obviously had implications for Telstra employees being retrained under the RFD. Telstra observed that the 'bulk of the work' currently being undertaken as a result of the NBN rollout was 'related to the build of the transit network, which is part of the definitive agreements', but emphasised that they 'stand ready to do whatever [they] can to assist NBN Co. to expedite the rollout of the network' – while also recognising that NBN Co have a 'commercial imperative' and are 'bound by procurement obligations'.⁴²

6.43 Against this background, there was a query about a recent loss of Telstra positions, with a number of positions also apparently moving offshore⁴³ – in particular, regarding whether these employees were eligible for retraining and redeployment under the Telstra RFD as part of the NBN

39 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 32.

40 Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 33.

41 Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 32.

42 Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 30.

43 'Telstra's "Project New" means big job cuts', *Australian*, 22 August 2012, p. 19.

rollout. Telstra explained that this was ‘not connected at all with the NBN rollout’⁴⁴ and therefore these employees did not fall under the RFD:

...those Lismore and Townsville call centres and the like were not NBN related. So they were caught up with our general provisions...

The point we would make about the structure and composition of our workforce is that there are a range of factors that impact on employment decisions in the business. The NBN and the structural change to the industry that the NBN is creating is one of them.

There are a whole range of other factors at play within our business at the moment which impact on employment decisions.⁴⁵

- 6.44 As Telstra further clarified, employees whose ‘roles are redundant for reasons unrelated to the rollout of the NBN (e.g. reduction in call volumes due to more transactions online and/or fewer complaints) would not be eligible for retraining’.⁴⁶

Telstra Training Plan

- 6.45 The RFD requires that a Training Plan be developed by Telstra and approved by the Commonwealth. The Training Plan is therefore a significant component of the RFD. Each Training Plan covers a three-year period, with the initial Training Plan covering the period 30 April 2012 to 30 June 2014.⁴⁷ Subsequent plans are to be lodged six months before the expiry of the previous plan. The first Telstra Training Plan was formally approved by the Government on 25 June 2012.⁴⁸
- 6.46 The scope of the Training Plan is to identify training needs, course development, training methodology and targets for retraining. The Training Plan deals ‘primarily with employees who are in the AEW, as they can be specifically identified’.⁴⁹ Under the terms of the RFD, ‘not less than 70 per cent of funds spent in any three years of a Training Plan must go towards the development and delivery of Accredited Training Courses by a Registered Training Organisation’.⁵⁰

44 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 29.

45 Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, pp 29-30.

46 Telstra Corporation, *Submission 12.1*, p. 3.

47 Telstra Corporation, *Submission 12.1*, p. 2.

48 Telstra Corporation, *Submission 12*, p. 2.

49 Telstra Corporation, *Submission 12.1*, p. 3.

50 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, p. 19.

6.47 Noting that the Training Plan is commercial-in-confidence, the committee was nonetheless interested in gaining a better understanding of how the plan would operate. In response, Telstra provided a summary of the plan.⁵¹ The DBCDE also provided some background on the Training Plan, noting that it included:

- Forecast inputs to the Training Plan, which identify the class of Telstra employees that may be retrained and forecasts their retraining needs and possible redeployment options.
- Curriculum and courseware development, which outlines the proposed approach for developing training courses.
- Learning delivery plan, which details the proposed course delivery method and the plan to deliver courses across geographic regions.
- Training and financial reporting, which includes the format for reporting and tracking budgets and training activity.
- Training Targets, which have been set for the eight year life of the deed...⁵²

6.48 In terms of the number of Telstra employees that had received training to date under the Training Plan, Telstra noted that, even though the first year of the plan had been shortened:

...in those 2 months, more training was delivered than the Plan required with 107 Telstra employees being retrained against the 40 estimated under the Plan. All of those retrained employees were in our copper/HFC areas and retraining related to the installation and migration curriculum. In total, there were [2,826] training attendances in the 2 months, which comprised [1,890] attendances related to structural separation undertaking training and [936] attendances related to other curricula. We also developed 21 courses, primarily in the installation and migration curriculum, as was anticipated would be developed under the Plan.⁵³

6.49 Telstra further outlined that:

Year 2 of the Plan commenced on 1 July 2012. Between then and 30 September 2012, we have delivered a further 856 training attendances across the installation and migration, value add premises, planning design and construction, and customer support curricula. Telstra currently has 40 training courses under

51 Telstra Corporation, *Submission 12.1*, pp 2-4.

52 DBCDE, *Submission 14*, Answer to Question on Notice No. 53, p. 4.

53 Telstra Corporation, *Submission 12*, pp 2-3 – with some figures (bracketed), as later corrected by Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 26.

development consisting of 34 new courses and 6 updated courses.

This is on track to meet the target set in the Plan. Telstra already has 30 training courses available in the NBN retraining catalogue.⁵⁴

- 6.50 The DBCDE provided similar statistics on Telstra employee retraining under the Training Plan, further noting that, 'of the 107 Telstra employees retrained, 16 were in TAS, 31 in VIC, 44 in NSW/ACT and 16 in QLD'.⁵⁵
- 6.51 It is anticipated that the majority of the technical training delivery will occur in years 3-8 of the term of the RFD, reflecting 'the expected profile of the NBN build', with a 'minimum of 173 training courses' having been developed or having had content revisions in the first three years of the plan.⁵⁶
- 6.52 Certain categories of employees have been identified in the AEW, but the committee was interested in the specific types of roles that employees might perform once they had undertaken retraining under the Training Plan. As Ms Eason, Senior National Industrial Research Officer from the CWU, commented, 'I think what is being said is, "We still don't quite know what the exact profile will be of telecommunication service industry workers in the future and just what the skill mix will be which will be of use" ...Exactly what that person looks like and what training you need to create them is not yet completely fixed'.⁵⁷
- 6.53 On this point, Telstra explained that it had 'mapped employees in the AEW to new functions and forecast the skills required to undertake these functions'.⁵⁸ While noting that the details of this forecast are 'commercially sensitive', Telstra broadly identified six retraining categories:
- planning design and construction of the NBN using FTTP, wireless and satellite technology
 - operational elements, including installation and migration of services from Telstra's existing networks to the NBN
 - operations and maintenance activity on the NBN
 - support for network elements including network transport and interconnect
 - back of house and front of house activities that support customer migration, new connections and customer and network assurance, and

54 Telstra Corporation, *Submission 12*, p. 3.

55 DBCDE, *Submission 14*, Answer to Question on Notice No. 52, p. 2.

56 Telstra Corporation, *Submission 12*, pp 3-4.

57 Ms Eason, CWU, Transcript of Evidence, Canberra, 26 June 2012, p. 7.

58 Telstra Corporation, *Submission 12.1*, p. 3.

- installation and maintenance of in-premises products and services.⁵⁹
- 6.54 Telstra also commented that, ‘we know some of the things that we will require them to do’, in that the employees who have already been retrained ‘can do a new skill, and that was the installation and migration of customers from our network onto the NBN’.⁶⁰
- 6.55 In terms of how success would be measured under the Training Plan, Telstra noted that the plan included the following targets:
- a three year high level NBN Retraining Courseware Development Plan, which is reviewed every 12 months. It also sets out Telstra methodology for developing courseware, how it intends to evaluate and review courseware, as well as how health and safety requirements will be incorporated into training and evaluated
 - targets for the number of courses that will be developed during each year of the Training Plan.
 - an annual delivery plan, which details the number of courses intended to be delivered and the number of people that are planned to attend training during each quarter in each geographical location...
 - a forecast, for the eight years of the Retraining Funding Deed, of the annual and cumulative planned spend for both courseware development and training delivery. It is intended that actual spend will be tracked against this. The planned spend may be revised, from time to time; and
 - for each of the eight years of the Retraining Funding Deed, targets for:
 - ⇒ total spend on training;
 - ⇒ the number of courses to be developed/refreshed; and
 - ⇒ the number of employees who will be retrained in a new skill.⁶¹
- 6.56 The CWU confirmed that it was ‘supportive of the general thrust of Telstra’s proposed training plan’ – in particular:
- ...that the training will be based largely on the nationally endorsed training package for the telecommunications industry

59 Telstra Corporation, *Submission 12.1*, p. 3.

60 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 27.

61 Telstra Corporation, *Submission 12.1*, pp 3-4. Beyond the first three years of the Training Plan, Telstra pointed out that these ‘targets are approximate’ and will be ‘confirmed or revised’ when the next Training Plan, covering the period 1 July 2014 to 30 June 2017, is submitted – *Submission 12.1*, p. 4.

(ICT10) with outcomes aligned to the Australian Qualifications Framework

- A focus on the development of higher skill levels and roles (generally at AQF3 and 4)
- Targeting of areas where there are well recognised skill shortages relevant to the NBN rollout, e.g. network designers
- Development of skill profiles matched to emerging work opportunities.⁶²

Full Qualification and Recognition of Prior Learning

6.57 The CWU raised recognition of prior learning (RPL) as a key issue in terms of enabling Telstra employees to ‘gain nationally recognised qualifications as part of the overall NBN training and certification effort’,⁶³ noting that:

...the recognising of prior learning that we are saying we would like to combine with the retraining [is] to make sure that people have the best chance of coming up with a cert II, a cert III or a cert IV – that is, to bring people up to a full qualification level as part of the internal training program. Some companies do not like a fixation on certification, but most employees like it. Even if employees have got a guarantee of work for four or five years, or for 10 years, for them to come out of this exercise with a cert IV or a cert III would be, in our view, a good outcome. And that would be achieved by a mixture of retraining on the basis of recognised training packages and, possibly, recognising prior learning.⁶⁴

6.58 On this point, the CWU was particularly concerned about employees ending up with a ‘patchwork of skill sets’ – ‘[y]ou can have a whole range of competencies and just have one or two units missing – and therefore you will not have a full cert II or a full cert III. That is the issue. You might end up with a kind of patchwork of skill sets which leave you just short of a full qualification’.⁶⁵

6.59 According to the CWU, Telstra had indicated that, as part of its training program, it would ‘consider combining RPL with new training “where [it was] reasonably able to do so”’.⁶⁶ The CWU explained that it had raised this matter with Telstra and:

62 CWU, Communications Electrical and Plumbing Union (CEPU), *Submission 1*, p. 2.

63 CWU, *Submission 1*, p. 2.

64 Ms Eason, Transcript of Evidence, Canberra, 26 June 2012, p. 4.

65 Ms Eason, Transcript of Evidence, Canberra, 26 June 2012, p. 5.

66 CWU, CEPU, *Submission 1*, p. 2.

...again they have said: 'Yes, where it makes sense'. That is, where we are talking about maybe a few units needed to bring somebody up to a full qualification. But there is no ironclad guarantee...

Telstra are saying: 'We don't recognise that as necessarily part of our obligation under the trust deed...

[Telstra's] position has always been: 'We'll train people and where possible we'll bring them out at a full qualification level, but if that doesn't make sense for us – if it is just a group of skill sets and not a full qualification, then that is it.' We think it makes sense in this context to combine the two things...

We have raised that with them because we think that not only do we want people trained against externally recognised qualifications but we also like the idea of people coming out with a full qualification.⁶⁷

6.60 However, the CWU did note some progress in this area: 'Telstra do appear to be doing some work now on aligning their internal training to the ICT team package. And you do that if you are putting in place the preconditions for recognising prior learning... but as to getting the ironclad commitment of "Yes, we'll do that," as you can see, we have not got that in these discussions'.⁶⁸

6.61 In response to these concerns about whether retraining for NBN related work under the Training Plan would see Telstra employees reach full qualification level or leave them with only a group of skill sets, Telstra explained that 'what we have said to the CEPU during consultation' is that we are asking, 'what are the skills that we need people to have? We will retrain people to do the things and we will then map that through to the AQF. Whether or not that actually gives somebody a full qualification... will depend on exactly which modules they do and how many of the competencies they gain'.⁶⁹

6.62 In terms of whether this would then see employees attaining the full competency, Telstra further clarified that:

It is not a decision we have actually made yet. But what we have said is that we understand the position that has been put to us – that surely it makes sense that if somebody has got 90 per cent of the qualification we help them get the 10 per cent – and that is

67 Ms Eason, Transcript of Evidence, Canberra, 26 June 2012, p. 4, p. 5.

68 Ms Eason, Transcript of Evidence, Canberra, 26 June 2012, p. 5.

69 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 31.

something we will look to make a decision on when we get to that point. What we do accept is that there is some logic in that. I suppose what we are not doing is saying to an individual employee, 'We will train you so that you have everything for this particular certificate'. That is not the way in which the training is being rolled out. It is being rolled out more on an as needs basis, based on the particular type of work that we have and the skills that we identify they need to be retrained in to do that work.⁷⁰

Consultation

6.63 Consultation is an important aspect of the Telstra RFD. Under the deed, Telstra must consult with unions on the implementation of the plan at least quarterly, and it is also required to consult with the DBCDE on at least a six-monthly basis.⁷¹ In accordance with these obligations, Telstra commented that, to date, it had:

...met with the unions and the Department on 4th November 2011, 19th March 2012, 20th June 2012 and 19th September 2012. On these occasions we have discussed:

- the development of the Training Plan;
- the training courses that have been developed and delivered according to the Plan; and
- the target number of employees to be retrained and the actual number who have been re-trained by Telstra to date in excess of that target.⁷²

6.64 Telstra noted that these meetings had been 'open and cooperative and... involved significant discussion between the participants'.⁷³

6.65 On the consultation process so far, the CWU commented that '[i]t is more than tick-a-box... all the way down the company in the different layers that we are involved with that is a sharp awareness, and that is creating a sort of willingness to engage'.⁷⁴

6.66 The DBCDE noted that it had attended, as an observer, Telstra's quarterly meetings with the unions and, in this capacity, considered that 'Telstra is

70 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 31.

71 Telstra Corporation, *Submission 12*, p. 4.

72 Telstra Corporation, *Submission 12*, p. 4.

73 Telstra Corporation, *Submission 12*, p. 4.

74 Ms Eason, Transcript of Evidence, Canberra, 26 June 2012, p. 8.

meeting the consultation and stakeholder engagement requirements under the deed'.⁷⁵

Reporting Requirements

6.67 The RFD includes a detailed reporting regime, covering both financial and training activities. As the DBCDE outlined, Telstra must:

- provide a half yearly report to the Department on progress against the training plan and a more detailed annual report to the Department on the training plan; and
- meet with the Department every six months and, unless agreed otherwise, to discuss, among other things, the progress of the retraining; and
- hold quarterly meetings with its unions which the Department will attend as an observer.⁷⁶

6.68 Telstra provided the department with its annual report on progress against the Training Plan in August 2012, and the report included information on:

- number and geographical location of employees that were retrained
- number of employees retrained from each Telstra work group
- nature and quantity of training courses developed and delivered
- number of employees trained and the pass rate from each course
- amount of funding used on accredited training as a percentage of total funds expended
- progress against training targets.⁷⁷

6.69 Further, the committee notes the Government's support for a recommendation in its Third Review report concerning public dissemination of a reporting document on annual progress under the Telstra RFD.⁷⁸ It was agreed that information about progress of the RFD could be 'included in the annual statement outlining the direct and indirect employment benefits of the National Broadband Network',

75 DBCDE, *Submission 14*, Answer to Question on Notice No. 55, p. 6.

76 DBCDE, *Submission 14*, Answer to Question on Notice No. 54, p. 5.

77 DBCDE, *Submission 14*, Answer to Question on Notice No. 54, p. 5.

78 JCNBN, *Review of the Rollout of the National Broadband Network: Third Report*, June 2012, p. xxii.

provided as part of the Government response to the committee's review reports.⁷⁹

- 6.70 In terms of how expenditure for funding under the RFD is budgeted over the eight years of the deed, the DBCDE advised that:

The Australian Government provided Telstra with an upfront payment of \$100 million (exclusive of GST) in 2011-12, as announced in the Economic Statement 2010, which was subject to the Commonwealth approving the initial training plan and budget.

The training plan includes training targets, one of which is an eight year expenditure forecast which utilises the full \$100 million payment. It is envisaged that yearly targets will be adjusted from time to time.

Telstra must provide the department with a new annual budget at the start of each financial year during the term of the RFD and the budget must include a breakdown of proposed spending.⁸⁰

NBN Workforce Planning

- 6.71 The CWU raised the issue of NBN skills supply issues, noting that it had been 'warning of possible skill shortages in relation to the NBN rollout for several years' – in particular, the CWU was concerned that:

...responsibility for skill development and supply does not and cannot be made to rest with any one participant in the project. As a result, co-ordination and funding questions in relation to skill shortages have inevitably arisen.

These have been exacerbated by structural changes in the telecommunications workforce over the last decade... which has seen many former employees become sub-contractors. Such workers may often not have the means or the incentives to undertake retraining for the NBN project, especially where significantly higher skill levels are required.⁸¹

- 6.72 The CWU further clarified that these activities need to be 'sufficiently well funded and coordinated to ensure a timely supply of skills to the project' – however, at present, 'there does not appear to... be one body
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79 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, p. 18, p. 24.

80 DBCDE, *Submission 14*, Answer to Question on Notice No. 52, p. 3.

81 CWU, *Submission 1*, p. 3.

which has the responsibility or the resources for developing an overall workforce strategy in this area and ensuring its implementation. This is a matter which we consider warrants the committee's and the government's further attention'.⁸²

6.73 In response to this matter, the DBCDE emphasised that:

The Australian Government is committed to ensuring there is a well-trained and accredited workforce for Australia's largest infrastructure project and the government is confident that NBN Co and its service delivery partners will be able to source expertise and resources to fulfil their obligations.

NBN Co's analysis suggests that the implementation of a variety of resourcing and skilling strategies will ensure that there are enough people in the industry to meet the skills requirements for the construction of the network.⁸³

6.74 The DBCDE further noted that the department and the NBN Co are 'working closely with all stakeholders including the NBN Co's service delivery partners, the industry skills boards and training organisations to facilitate partnerships and support an appropriately skilled workforce to support the rollout'.⁸⁴

6.75 In terms of the major areas of emerging NBN training need and workforce demand, including local/regional employment, the DBCDE explained that:

NBN Co has forecast that the total number of new jobs created in the construction of the NBN alone is between 16,000 and 18,000.

NBN Co has identified that 80 per cent of the workforce will be spread across the top five occupational groups of labourers, NBN Linesworkers, NBN Installers, NBN Splicers and earthmoving plant operators.

The company undertakes workforce modelling using the national rollout schedules to forecast demand for workers, by region, occupation and time. This modelling has recently been refreshed and reviewed against the current three year rollout plan.

NBN Co has developed a skills formation strategy which targets occupational qualifications at Certificates II and III with the

82 Mr Dan Dwyer, Divisional Secretary, CWU, Transcript of Evidence, Canberra, 30 October 2012, p. 2.

83 DBCDE, *Submission 14*, Answer to Question on Notice No. 56, p. 7.

84 DBCDE, *Submission 14*, Answer to Question on Notice No. 56, p. 7.

objective of building the industry's capability. To this end, NBN Co is working with selected training organisations to identify skills gaps and to provide training.⁸⁵

- 6.76 The Government response to the committee's Third Report provides further details on NBN skilling strategies and major areas of emerging NBN training need and workforce demand, in line with the committee's recommendation to that effect.⁸⁶

Concluding Comments

- 6.77 Over future reporting periods, the committee will continue to be interested in monitoring progress under the Telstra RFD and Training Plan in supporting the availability of an appropriately trained workforce for the NBN. The committee was therefore interested in whether the RFD and its accompanying Training Plan were publicly available documents. Telstra explained that both documents were commercial-in-confidence.⁸⁷ However, as outlined earlier, both Telstra and the DBCDE were able to provide the committee with an overview of these documents. The committee welcomed the details provided on the RFD and Training Plan by the DBCDE and Telstra. The committee further notes the reporting regime that has been established for the RFD and the progress reported to date against established performance targets under the Training Plan.
- 6.78 In this regard, the committee also notes the Government's support for a recommendation in its Third Review report that the DBCDE 'publicly disseminate a reporting document on annual progress under the Telstra Retraining Funding Deed'.⁸⁸ The committee therefore looks forward to receiving the next annual update on this matter.
- 6.79 The committee will also continue to be interested in monitoring the size and composition of both the AEW and the other workgroup eligible for retraining under the RFD in terms of the numbers and roles of Telstra employees retrained/redeployed and successfully transitioned over into

85 DBCDE, *Submission 14*, Answer to Question on Notice No. 56, pp 7-8.

86 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, pp 19-24.

87 Telstra Corporation, *Submission 12.1*, p. 1.

88 JCNBN, *Review of the Rollout of the National Broadband Network: Third Report*, June 2012, p. xxii. The Government agreed that 'information about the progress of the Telstra Retraining Funding Deed could be included in the annual statement outlining the direct and indirect employment benefits of the National Broadband Network', provided as part of the Government response to the committee's review reports, and therefore made publicly available — Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report on 30 June 2012*, p. 18.

the NBN sector, particularly given the uncertainties about the future size and composition of this second group – ‘[a]t this point in time, it is not possible to accurately estimate how many employees may be in the second category’.⁸⁹

- 6.80 The number and role of Telstra employees who do or do not fall into this eligible group are of interest here – the reasons for their eligibility or exclusion. As the committee heard, ‘employees will only fall into this category, and be eligible for retraining, if their role may be redundant because of NBN rollout. Employees whose roles are redundant for reasons unrelated to the rollout of the NBN... would not be eligible for retraining’.⁹⁰

Recommendation 7

- 6.81 **The committee recommends that, in providing an annual statement to the committee on the progress of the Telstra Retraining Funding Deed (RFD), the Department of Broadband, Communications and the Digital Economy include in this information an update on:**

- **ongoing company retention rates for employees in the Automatically Eligible Workgroup, retrained under the RFD;**
- **the current numbers and roles of employees in the other eligible workgroup under the RFD and an overview of the current reasons for eligibility or exclusion in terms of this group.**

- 6.82 The committee notes the concerns raised about Telstra employees receiving a full qualification, where applicable, under the Training Plan as part of the RFD, rather than a ‘patchwork of skill sets... just short of a full qualification’.⁹¹ It therefore sees benefit in further consultation between the DBCDE, Telstra and the relevant unions on this matter as part of the continuing formal consultation process under the RFD.

- 6.83 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. Against this

89 Telstra Corporation, *Submission 12.1*, p. 3.

90 Telstra Corporation, *Submission 12.1*, p. 3.

91 Ms Eason, Transcript of Evidence, Canberra, 26 June 2012, p. 5.

background, the committee notes the Government's commitment, in line with its response to the committee's recommendation in its Third Report,⁹² to publish such information on an annual basis.⁹³

- 6.84 The committee notes that, as further recommended in its Third Report,⁹⁴ this annual statement will also include information on major areas of emerging workforce demand and training need in this regard, to ensure that the Australian workforce, more generally, has the skills-set to be able to implement and maintain the NBN into the future.
- 6.85 On this point, the committee acknowledges the statement made by the DBCDE that the department and NBN Co are 'working closely with all stakeholders including NBN Co's service delivery partners, the industry skills boards and training organisations to facilitate partnerships and support an appropriately skilled workforce to support the rollout'.⁹⁵ The committee believes there would be benefit in further coordinating this area, in developing and implementing the overall workforce strategy.

Recommendation 8

- 6.86 **The committee recommends that, in providing an annual statement to the committee outlining the major areas of emerging National Broadband Network (NBN) workforce demand and training need, the Department of Broadband, Communications and the Digital Economy include in this information a more detailed report on:**
- **the workforce development strategy supporting the NBN rollout, including current workforce modelling and outcomes from work with training organisations and industry skills boards, to identify skills gaps in this area and develop training programs;**
 - **how the development and implementation of this overall workforce strategy is being coordinated.**

92 JCNBN, *Review of the Rollout of the National Broadband Network: Third Report*, June 2012, p. xxii.

93 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, p. 24.

94 JCNBN, *Review of the Rollout of the National Broadband Network: Third Report*, June 2012, p. xxii.

95 DBCDE, *Submission 14*, Answer to Question on Notice No. 56, p. 7.

Robert Oakeshott MP
Chair

26 February 2013