

Executive Summary

NBN Co Strategic Review

The Senate Select Committee on the National Broadband Network (the Committee) has issued this interim report because it has significant concerns with the accuracy and reliability of the Strategic Review.

The Committee considers that the assumptions and conclusions set out in the Strategic Review are unreliable in the case of all examined scenarios.

The Committee has found that the Revised Outlook includes financial manipulations and other irregularities, such as:

- the exclusion from the Revised Outlook of approximately \$4 billion in ‘business as usual,’ incremental architecture savings signed off by previous NBN Co management, and their characterisation as ‘radical’ for inclusion in Scenario 2 (‘Radically Redesigned FTTP’);
- an assumption of a delay in the revised deployment schedule that is at odds with NBN Co’s current run rate, reflects deliberately conservative estimates of premises passed at peak rollout, and cannot be disentangled from political control of the speed of network deployment, but has the assumed effect of stripping out \$11.6 billion in revenues and adding \$13 billion to peak funding;
- assumptions on higher unit costs for the fibre build that add \$14.4 billion in capital expenditure, but:
 - are at odds with recent evidence from NBN Co and the Department of Finance; and
 - are extrapolated out to 2024 without a single efficiency saving for three years, and only 2.5 percent in two of the remaining seven years;
- the addition of a third satellite in the Revised Outlook, without direct explanation, with launch assumed at such a time (FY2021) to include costs but exclude revenues from scenario comparisons;
- overly pessimistic revenue assumptions that:
 - do not reflect existing strong demand for NBN services, or the high data usage patterns of Australians using the NBN;
 - ignore demand for important elements of broadband quality, particularly reliability and upload speeds;
 - remove revenue benefits from the superior product set available on FTTP, compared to other technologies (up to \$3.2 billion in the ‘steady state’); and
- scenario comparisons that include costs and revenues for the Multi-Technology Mix (MTM) build at assumed completion, and costs for the

Revised Outlook out to 2024, but exclude revenues for the Revised Outlook beyond 2021.

The Committee considers that—without the financial manipulations evident in revenue and other assumptions—the so-called “radically redesigned” FTTP scenario represents a better estimate of the cost of the fibre build than the Revised Outlook. This is because the productivity and architecture improvements included in Scenario 2 had already been included in the September 2013 Corporate Plan, and implemented, by previous NBN Co management.

The Committee has equally strong concerns about the reliability of assumptions underpinning the MTM, the recommended option. These include:

- the financial model for the MTM was built using mostly international benchmarks and estimates, rather than field data;
- operating expenditure for the MTM is expected to be significantly higher than for a fibre network. The caretaker advice prepared by NBN Co points to the substantial costs associated with remediation and maintenance of the copper network. The committee has heard similar evidence from witnesses representing the workforce in the field. Material operational costs are also expected from NBN Co managing at least two additional fixed line networks, and the migration arrangements and IT systems that relate to them. However, the Strategic Review assumes that operating expenditure for the MTM will be similar to what is required for a new fibre build;
- the ‘limited speeds and product capabilities’ available on FTTN are expected to result in reduced revenues compared to a full fibre rollout in the fixed line footprint. Further, NBN Co will need to conduct extensive field tests before the speeds and broadband quality in the (non-FTTP) MTM fixed line footprint will be known empirically. However, the Strategic Review assumes revenues for the MTM that are similar to those for a full fibre rollout, despite the vast difference in broadband quality and product sets;
- the Strategic Review acknowledges that the MTM will need to be upgraded, but provides no costs for these flagged upgrades. The full cost of the MTM will only be known once these upgrade costs are included in the model.

NBN Co’s previous Corporate Plans have been developed over a period of many months and have been subject to independent oversight and verification. By contrast, the Strategic Review was the result of “five weeks of intensive work on the part of lots and lots of people”¹ and was subject to no independent external oversight.

Further, the committee rejects the rollout strategy advocated by the current Government and reflected in the MTM. In particular:

- the deployment of higher-quality broadband (FTTP) to high value suburbs, and the deployment of inferior broadband (FTTN) to low value suburbs is an inappropriate use of taxpayers’ money. As a Government Business Enterprise,

1 Committee Hansard, 17 December 2013, p. 38.

NBN Co should not have a rollout strategy that favours one suburb over another;

- the proposed Fibre on Demand product is expected to be too expensive for many residences and small businesses. This will create competitive disadvantages for individuals and small businesses outside the fibre footprint, and will entrench broadband inequality in Australia.

The Committee considers these rollout strategies reflect a fundamental misunderstanding of broadband quality—particularly uploads—and demand for this quality and reliability in the residential and small business market. Failure to consider that broadband quality and capability goes beyond download speeds is systemic in the Strategic Review.

The Committee concludes that the Strategic Review does not comprise a sufficient information base for the NBN Co Board or the Minister to adopt an alternative deployment path for the NBN.

Recommendation 1

NBN Co should submit a revised Strategic Review that provides transparent assumptions and corrects deficiencies and distortions. The revised Strategic Review should provide details of only two scenarios:

- **An optimised FTTP rollout that adopts the technology changes and other management initiatives outlined in Scenario 2, together with a plan to address identified industry capacity constraints; and**
- **A revised Multi-Technology Mix that is based on actual costs for FTTN and HFC derived from discussions with Telstra, Optus and vendors. This scenario should also include all costs to undertake the flagged upgrades to 100 Mbps by 2023, 250 Mbps by 2028 and 1000 Mbps by 2030.**

The revised scenarios should include consideration of broadband quality beyond just download speeds, and the demand for attributes like upload speeds and reliability in the residential and small business market.

Prior to submission, the Strategic Review should be scrutinised and verified by an independent advisor engaged by the Department of Communications and the Department of Finance.

NBN Co should be directed to continue and accelerate the FTTP roll out while further analysis is undertaken by NBN Co, the Departments and the Minister. The Committee notes that NBN Co is not able to progress the FTTP rollout at the maximum rate possible at present. This is because—under the interim Statement of Expectations—NBN Co is required to obtain approval to issue additional build instructions. This places the management of the current FTTP rollout under direct political control. The committee considers that, given the continuing review work, and the fundamental problems with the Strategic Review, NBN Co should continue the current FTTP roll out at the maximum rate possible and free from political interference.

Recommendation 2

NBN Co should continue and accelerate the roll out of the FTTP network while further analysis is undertaken.

NBN Co should be allowed to proceed free from political interference.

NBN Co Governance and Review Processes

Key appointments to the NBN Co Board and management relevant to the Strategic Review reflect to a large extent personnel named in media reports before the election. There is also clear evidence that key appointees have prior personal associations with the Minister. The Committee considers that some of the processes of recruitment for the Board and management of NBN Co have created the perception that these are political appointments for a political purpose. In reaching this conclusion, the Committee is not making any judgements about the skills and experience of any of the individuals.

A key finding of KordaMentha was that “no material issues exist within the accounts of NBN Co.” However, the Strategic Review draws radically different conclusions from the information contained in the 2013-16 Corporate Plan signed off by an independent board in June 2013.

It is not clear to the Committee how the NBN Co Board could have endorsed the Strategic Review, given its clear deficiencies. In the Committee’s view, this should be investigated to ascertain how and at what point the governance processes at NBN Co have failed under the current Government.

Recommendation 3

Governance processes between NBN Co and the Minister should be investigated to determine how a document with the deficiencies evident in the Strategic Review was produced and signed off by the NBN Co Board and the Minister.

The committee is also uneasy at the multiple reviews of the NBN that have been announced and the very short timeframes for their completion. Noting the Committee’s findings as to the Strategic Review—and the Government intention for reviews to inform the development of NBN Co's Corporate Plan 2014-17—the committee considers that the reviews and their findings should be subject to continuing and close parliamentary scrutiny.

The committee also notes the finding of the Strategic Review that the intense politicisation of the NBN—driven principally by Coalition opposition to the project—has adversely impacted the performance of NBN Co and the efficient deployment of the network.

Recommendation 4

The Committee recommends that the Senate amend the Committee’s Terms of Reference to enable ongoing and robust Parliamentary oversight of the National Broadband Network.

Transparency and Accountability

The Committee considers that transparency has decreased markedly at NBN Co since the change of government, despite undertakings prior to the election. In summary:

- there is clear evidence of community uncertainty about the rollout of the NBN. Communities are not informed when physical construction is taking place in their area, and local communities are not being advised when services are expected to become available. Further, published weekly rollout information is only a subset of what is available to NBN Co management;
- NBN Co personnel appear reluctant to be subject to Parliamentary scrutiny. On three occasions summons have been issued, and in some cases requests for specific personnel have been denied. Answers to Questions on Notice have been submitted late or not at all, are evasive, and some do not attempt to address the questions asked;
- there is evidence of a Freedom of Information request being denied for spurious reasons; and
- a request for in camera scrutiny of the unredacted Strategic Review has been denied by the Minister, despite the fact that the redacted assumptions underpin a proposed Commonwealth investment of over \$40 billion—not including required technology upgrades.

Of key concern to the committee is the uncertainty evident in the community about the rollout. The lack of consultation with local communities, and the absence of information available to these communities on the rollout, has been a key theme of submissions to the committee and evidence given at public hearings.

Recommendation 5

Shareholder Ministers and NBN Co should implement concrete measures to improve transparency and accountability. At a minimum, NBN Co should:

Immediately take steps to rectify community uncertainty about the rollout. NBN Co should inform communities where physical construction is taking place, and provide forecasting data on its website to advise local communities when services are expected to become available;

Attend all Parliamentary Committee hearings and answer questions on notice accurately and in a timely fashion, as is appropriate for a Government Business Enterprise accountable to the Australian people; and

Publish the full program summary report on its website, in accordance with the interim statement of expectations.
