

Coalition Senators' Dissenting Report

Foreword

Coalition Senators find the Chair's report to be grossly misleading and untruthful in its portrayal of the evidence provided to the Senate Select Committee.

Coalition Senators additionally find that the process of preparing this interim report of the Senate Select Committee, including the provision of a deliberately falsified version of the majority report to the Coalition, to constitute an abuse of process. The 140-page majority report – which is replete with misrepresentations – and its self-serving recommendations were provided to Coalition senators one hour before the deadline for publication. This can only have been to deliberately limit Government members' ability to respond to the falsehoods and self-serving distortions littered throughout the report.

Anyone with a cursory understanding of the development of the National Broadband Network, the behaviour of the former Minister for Communications, Senator Stephen Conroy, and the performance of NBN Co will surely be gobsmacked by the assertions made in the Chair's report.

Senator Conroy possessed neither the competence nor capabilities to successfully build the NBN, and the interim report he and his colleagues have made underscores his financial illiteracy and their wilful ignorance of the true state of the project. But the interim report process exemplifies the Labor Party's dedication and proficiency when it comes to political game-playing and point-scoring.

The 97 per cent of Australians who Senator Conroy abjectly failed to deliver the NBN to surely wish he had displayed a similar commitment to improving their broadband.

During the Committee's work it has become abundantly clear that Labor Senators have no interest in examining or learning from the systemic and material failures of NBN Co, which by September 2013 had reached 3 per cent of Australian premises at a cost to taxpayers of \$6.5 billion, and was on a course that would have resulted in every Australian household and business paying \$43 per month more for broadband on average.

Instead, the Committee has degenerated into a highly politicised and at times farcical face-saving exercise where Senator Conroy, has sought to distort the history of the NBN and deny or disguise his direct personal culpability for massive economic

damage to a crucial input industry and the destruction of taxpayers' money on an unprecedented scale.

The majority interim report seeks to discredit the various independent analyses of the NBN undertaken since the September 2013 election. Instead it asks the public to believe that the NBN was on track and just around the corner – after six years where Labor's walk never once matched its talk. The plausibility of this narrative is a matter for the Australian public to judge for themselves.

But according to all of the evidence available, the NBN represents the single largest destruction of value for taxpayers in the history of the Commonwealth – and, it must be repeated, Senator Conroy bears direct personal responsibility for this outcome.

The following dissenting report will outline the reality of the situation at NBN Co, detail the appalling and undignified conduct of the Committee (which in the view of Coalition Senators is causing the Parliament significant reputational damage in the community) and challenge the baffling and illogical conclusions of the majority interim report.

It is the sincere hope of Coalition Senators that this Committee can more effectively focus its work and lift its standards of conduct going forward.

There are important questions for the Committee to examine – including those around how fast broadband can be delivered to Australians sooner, at lesser cost to Government and at prices which are affordable for consumers, and a separate set of questions about why the NBN project under Labor's oversight failed so disastrously.

Background to the Senate Select Committee

To provide additional context to this Committee's operation, Government Senators note that the former Labor Government was not in favour of establishing the Joint Select Committee on the NBN in the 43rd Parliament. It was only established as part of negotiations with cross-bench MPs over the *Telecommunications (Structural Separation – Networks and Services Exemption) Instrument (no 1) 2011* when Senator Xenophon, in exchange for supporting the legislation, sought release of a redacted copy of the NBN Co Corporate Plan and establishment of the Joint Select Committee.

Until this negotiation in November and December 2010, Senator Conroy and the Government of which he was a part adamantly refused to disclose the NBN Co's business plan to the Australian taxpaying public, despite the latter being compelled to

provide at least (on the Labor government's estimate of the time) at least \$43 billion of debt and equity capital to the project.

Government Senators likewise note that this Senate Select Committee was established only after the shadow Defence spokesman and former Minister for Communications, Senator Conroy, overruled the current shadow Communications spokesman, the Hon. Jason Clare MP on the appropriate model for oversight of the NBN in the current Parliament.

The Hon. Jason Clare MP had previously verbally agreed with the Coalition to re-establish a Joint Standing Committee on the NBN, drawing a broad membership from both houses of Parliament and all parties. This Committee would have continued for the duration of the current Parliament.

It was the view of both the Government and Labor's spokesman on Communications that this Committee structure would have provided the most effective opportunities for constructive scrutiny of the NBN by the Parliament.

Senator Conroy – whose period as Minister was marked by a recurrent preference for opacity and secrecy over transparency and accountability – instead insisted on a small Senate Select Committee, to ensure voting numbers that favoured Labor and the Greens. He thereby excluded his own party's spokesman on Communications and assistant spokesman on Communications from participation in the key Parliamentary body performing oversight of the NBN.

Conduct of the Committee

Government members of the Senate Select Committee regrettably must highlight the conduct of Labor and Green members of the Committee, with particular reference to: serial refusal to allocate equal time to Government members to question witnesses; serial failure to call witnesses requested by Government members; serial refusal to allow questions of witnesses present at hearings; frequent bullying and hectoring of witnesses; numerous unsubstantiated and bellicose accusations that witnesses were 'lying'; and many other instances of conduct that was unparliamentary and detrimental to public perceptions of the Senate.

Senator Conroy's insistence, as the former Minister for Communications, on temporarily chairing a committee charged with investigating a bungled and disastrously over-budget project for which he bears direct personal responsibility

shows an extraordinary inability to separate crude self-interest from the obligations to community and party that normally fall upon elected representatives.

Throughout the hearings, the Chair (whether Senator Lundy or Senator Conroy) has refused to allocate equal or sufficient time to Government Senators to question witnesses. This is conduct of such a crudely partisan and self-serving character that it brings the entire Committee process into disrepute.

This was no better highlighted than during a public hearing held in Sydney on 12 March 2014. A cursory examination of Hansard clearly shows that Opposition members – in particular Senator Conroy – were given disproportionate time to question witnesses compared to Government members.

Government Senators point out that at this hearing, the Opposition had more than three hours to question representatives of NBN Co while the Government was allocated considerably less than one hour. For example, Hansard from 12 March 2014 shows that from when proceedings commenced at 0829 hours until a break at 1027, almost every question was asked by Senator Conroy. Hansard shows proceedings recommencing at 1036, at which Government members asked questions – however, Senators Conroy and O’Neill nevertheless accounted for the bulk of questioning in this period as well.

The Chair has failed to call witnesses requested by Government members. On 13 February 2014 the Committee was advised of a number of witnesses who Senator Seselja requested to appear at a public hearing. But at a private meeting held on 20 March Government members of the committee were advised these witnesses had not even been contacted. Again, this is crudely self-serving conduct deeply at odds with Westminster-derived governance, and more akin to the parodies of democracy common in the Eastern Bloc prior to the fall of the Soviet Union.

The Chair has also arbitrarily disallowed questions of witnesses present at hearings – yet again, conduct hardly likely to contribute positive to community perceptions of the Senate as a place where issues are considered objectively and the truth sought without fear or favour.

Senator Conroy, during his temporary role as Chair of the Committee, denied Government members the opportunity to ask questions of a witness present and further denied a witness the right to augment their contribution by seeking more detailed information from another witness, as per usual practice:¹

¹ page 13, Hansard transcript for Select Committee on the NBN public hearing on 17 December 2014

Dr Switkowski: This might be an opportunity to invite one of our advisers to comment on that, because it was an independent assessment. Their views are well worth listening to. Mr Korda—

CHAIR: Sorry; we will ask questions of Mr Korda later.

Senator SESELJA: I have asked a question of Dr Switkowski. He is seeking further advice. I would be very pleased to hear the additional information from Mr Korda.

CHAIR: And you will be able to, at the appropriate time in the committee hearing.

Senator SESELJA: Sure. But it seems that you want to limit the ability of questions to be answered. You have had 50 minutes. We have just started some questioning—

CHAIR: The committee has set out the agenda. The witness is—

Senator SESELJA: But there is nothing to stop additional information from coming forth.

CHAIR: The witnesses will be called this afternoon—

Senator SESELJA: There is no principle of the committee that we cannot have additional information.

CHAIR: The witnesses will be called this afternoon. You will be able to get all the information you need if you are patient.

Senator SESELJA: But I am going down a line of questioning which is no different to where you started in terms of the review. Dr Switkowski has said that he can provide additional information to that questioning, and I would like to get those answers. If Mr Korda can assist—

CHAIR: Mr Korda is listed to appear at 3.45 this afternoon, and you can put the questions to him—

Senator SESELJA: That is fine, but you have had 50 minutes—

CHAIR: If you do not have any more questions for the witnesses at the table—

Senator SESELJA: I do have questions for the witnesses.

CHAIR: Well, then, please ask them.

Senator SESELJA: And if Mr Korda can assist the witness, I am not sure why we as a committee would be prevented from getting those answers.

CHAIR: We have a separate entire period where we will be calling those witnesses, as agreed by you earlier today and—

Senator SESELJA: The witness at the table has said he can provide additional information through an additional witness.

CHAIR: last week. Would you like to ask Dr Switkowski some questions?

Senator RUSTON: Could I ask a procedural question, Chair? Is there anything preventing Mr Korda answering this question from a procedural perspective—

CHAIR: If you have finished your questions to Dr Switkowski, I have got lots more, so I can take up the flak.

Senator SESELJA: I am actually asking Dr Switkowski a question. I agree with Senator Ruston. Perhaps you can answer that question: is there anything preventing a witness coming to the table—

CHAIR: The committee have already agreed, and now what you are trying to do is change the order—

Senator SESELJA: No, I am not.

CHAIR: of the witnesses appearing before the committee in mid flight. We have already agreed on the program.

Senator SESELJA: It is regular practice, and in fact I think we saw it in the hearings last week—

CHAIR: It is already agreed in the program.

Senator SESELJA: where additional witnesses were called from the back of the room where they could assist.

CHAIR: If you do not want to ask Dr Switkowski any more questions—

Senator SESELJA: I am asking him questions, but you seem desperate—

CHAIR: I will see if another senator—

Senator SESELJA: to stop Mr Korda from coming and assisting—

CHAIR: I am very excited for Mr Korda to appear, when he is called this afternoon.

If you have no more questions—

Senator SESELJA: I have plenty.

CHAIR: I will take the questions and I will keep going.

Senator SESELJA: Can I ask the question, though: what is the problem with him providing additional information?

CHAIR: He will provide it at 3.45, when he has been called.

Senator SESELJA: What is the problem with him providing—

CHAIR: Stop trying to run the committee from over there.

Senator SESELJA: I am not trying to run the committee. I am dealing with our witness at the table, who has requested another witness come and assist with answering the question.

Considering Senator Conroy has himself on several occasions called witnesses present in the room to give evidence prior to their scheduled time to suit his line of questioning, Government Senators believe the exchange above exemplifies the misconduct, lack of impartiality and disrespect for the Committee process all too common in the proceedings of this particular Committee.

Bullying and Hectoring of Witnesses

Coalition Senators are concerned that Senator Conroy has bullied and hectored witnesses in a manner that degrades community respect for the Committee process and the Senate, and is utterly inappropriate and unbecoming of a Senator: ²

CHAIR: Mr Adcock's salary? What is Mr Adcock's salary?

Dr Switkowski: It is disclosed in the annual report.

CHAIR: So you are refusing to—

Dr Switkowski: No, I am going to make those numbers available.

CHAIR: You know full well what they are. You are refusing to disclose them.

Dr Switkowski: The numbers will be available in the normal—

Senator RUSTON: Senator, I think you are badgering the witness here.

CHAIR: I am just getting a demonstration of the arrogance of the witness.

Senator RUSTON: Dr Switkowski has said he will make them available at the appropriate time.

² page 35, Hansard transcript for Select Committee on the NBN public hearing on 17 December 2014

CHAIR: *The appropriate time is when the committee asks for them or decides it wants to insist on them.*

Senator RUSTON: *He may need to take it on notice. He may not actually have the exact figures.*

The contempt displayed by Senator Conroy towards Dr. Switkowski spilled over into Senate Estimates hearings with Senator Conroy directly accusing Dr Switkowski of lying (without providing any substantiating evidence whatsoever for the most serious allegation that can be levelled against a sworn witness):³

Senator CONROY: *Quite a lot are putting in claims. I am not saying you have acknowledged them. I will use 'acknowledge' as an affirmative stance towards resolving the dispute, rather than a complete try-on just because they have been incompetent in what they were contracted to do. That is probably it.*

Dr Switkowski: *I will accept that language. I do not know how many other of our contracting partners are in the process of lodging major claims against us, but we know Visionstream is one of them.*

Senator CONROY: *Well, there is almost no-one left, from the sound of it! When they see a soft touch, they know to stick in a big claim.*

Dr Switkowski: *Now, now. Do not go there. You keep saying that. It is inflammatory and it is wrong.*

Senator CONROY: *The actual numbers will prove whether I am right or you are right.*

Dr Switkowski: *They will prove whether we are right or you are right—exactly.*

Senator CONROY: *Yes. When the inflated numbers you forecast that you would be paying come to bear, you will be exposed.*

Senator Fifield: *Chair, I raise a point of order. Comments like 'you will be exposed' are clearly a reflection on the witness.*

CHAIR: *Exactly. Senator Conroy, can you stick to your—*

Senator CONROY: *What? I am allowed to reflect on witnesses. I cannot call them a liar, but reflecting on the witnesses—*

CHAIR: *Stick to your questions.*

Senator CONROY: *Let me be clear: I am reflecting.*

CHAIR: *Can you stick to your questioning and refrain from any comments, please.*

Senator Fifield: *It is an inappropriate reflection.*

Senator CONROY: *Thanks for your opinion!*

A member of the community casually observing the conduct of the Senate upon either occasion and taking note of Senator Conroy's callous treatment of Dr Switkowski would be forgiven for mistakenly assuming it was Dr Switkowski who was the former union official responsible for squandering almost \$7 billion on a network reaching 3 per cent of Australian premises, and Senator Conroy who in fact was one of the

³ Hansard transcript for Senate Environment and Communications Legislation Committee, Estimates, 25 February 2014, page 56.

nation's most respected business leaders and a former CEO of both major private telecommunications carriers.

Government Senators view Senator Conroy's rudeness and lack of self-restraint as unacceptable. The disrespect shown to witnesses brings dishonour upon the Committee, and on the Senate as a whole.

Additional incidents of poor conduct or conduct unbecoming of the Committee include:

- Senator Lundy's resignation as chair of the Committee on 6 December 2013 and her re-appointment as chair on 20 December (with Senator Conroy appointed to the role in the interim). It is our understanding Senator Lundy was simply unavailable to attend scheduled hearings in December because of other commitments. Usual practice on such occasions is for the responsibilities of chair devolving to the deputy chair, or for hearings not to be held. Neither course of action was taken – instead, Senator Conroy chaired public hearings on 11 and 17 December 2013.
- Unreasonable demands for the repeated attendance at public hearings of senior executives of NBN Co. Representatives of NBN Co have appeared before public hearings of the Senate Select Committee more often since October than they appeared before the previous Joint Committee and Senate Estimates process during the entirety of 2012
- The Opposition's insistence on numerous public hearings being held at extremely short notice (necessitating the expenditure of significant resources by NBN Co), without any reasonable justification. It must be stated that this has materially affected the work of NBN Co's new leadership team to turn around the financial and operational disaster left by Senator Conroy's oversight of the Company.
- The Opposition's refusal to allow representatives of NBN Co to appear by video, despite allowing Senator Ludlam to do so at the hearing on 29 November 2013.
- Opposition members' insistence that representatives of NBN Co appear in person while the Company was preparing an extremely important and complex document – the NBN Strategic Review. Prima facie, this conduct was a calculated attempt to run interference in the legitimate work of NBN Co and the Company's efforts to get the project back onto a sustainable footing. Government Senators note that an offer of an alternate hearing the following week was refused. This caused significant and unwarranted inconvenience to NBN Co. It is difficult to avoid the conclusion that this

episode reflects Senator Conroy's determination to deliberately continue destroying value for taxpayers in Opposition, just as he unwittingly did through his incompetence and mismanagement in Government.

The sorry record of Committee conduct set out above makes it abundantly clear the bipartisan integrity of Committee process was seriously compromised, if not abused, by Opposition members.

It is the view of Government Senators that the failures of the Committee's integrity outlined above damages the Committee and undermines the legitimacy of this inquiry.

The State of the NBN Rollout

Coalition Senators are astonished that so little focus has been given to examining the abject state of the National Broadband Network fibre rollout, which is intended to provide very fast broadband to 93 per cent of all Australian households and businesses. NBN Co is yet to meet a single fibre rollout target.

The Company has repeatedly fallen short of its publicly stated rollout targets by wide margins, including:

Total Premises Passed by Fibre –Greenfields & Brownfields ('000)

	30 June 2012	30 June 2013
Corporate Plan, December 2010	317	1,268
Corporate Plan, August 2012	39 (actual)	341
Actual		208

Total Premises With Active Service on Fibre –Greenfields & Brownfields ('000)

	30 June 2012	30 June 2013
Corporate Plan, December 2010	137	511
Corporate Plan, August 2012	4 (actual)	54
Actual		34

When they announced the current version of the NBN in April 2009, Prime Minister Rudd and Minister Conroy stated the rollout would be completed by 2018 and would have a net cost to Government of no more than \$26 billion (a forecast which was described as a 'conservative estimate').⁴

⁴ http://pandora.nla.gov.au/pan/80090/20100510-0258/www.minister.dbcde.gov.au/media/media_releases/2010/040.html

By the September 2013 election, NBN Co had passed just 258,129 premises with fibre (2 per cent of the total needed to complete the network).

The rollout has been marred by serial delays, financial impairment of contractors, commercial disputes between contractors and NBN Co, and consistent failure to deliver.

NBN Co's underperformance has been notably worse in South Australia, Western Australia and the Northern Territory – under Senator Conroy, it appears there was virtually no interest in providing the 4 million Australians in these jurisdictions with very fast broadband and access to the opportunities of the digital economy.

At the election just 1714 premises in these States had service over the NBN fibre.

Responsibility for the NBN's Failures

Coalition Senators welcome sporadic remarks from Senator Conroy belatedly admitting there were problems with the NBN project:

“We clearly underestimated and I think it's fair to say the construction model could be legitimately criticised ... We wouldn't have been so aggressive if we'd known how tough it was for the company. So that was an area where we were overly - ambitious ... I can understand and indeed empathise with those who are disappointed with the progress on the fibre roll-out.”⁵

However, Coalition Senators cannot reconcile this admission with Senator Conroy's repeated declarations over many years that the rollout was on time and within budget, such as:

“The [corporate] plan being released today confirms the project is on track.”⁶

It is also difficult to reconcile the disastrous outcomes from Senator Conroy's oversight of the project with his claims that he is focused on improving broadband for Australians living in regional and remote areas. These Australians are among those who would benefit most from timely provision of improved access to very fast broadband, and the services and opportunities to participate in the digital economy that it provides.

⁵ Quoted in Ramli, D., (2013), “Labor's NBN Plans Too Ambitious”, available online [here](#).

⁶ Quoted in Iggulden, T., (2012), “Conroy Slams Opposition, Media, Over NBN Fears”, available online [here](#).

But the facts show that the former government's mismanagement of the NBN has had a particularly adverse impact on citizens in regional and remote areas, by deterring private sector investment in broadband in these areas over the course of many years, yet failing to deliver NBN services on the timetable promised.

The NBN Co Strategic Review

On 3 October 2013 the Government issued terms of reference for a Strategic Review of the National Broadband Network and asked NBN Co under a new Board and management team (with experience in the telecommunications sector) to carry out this work. This first phase of the Strategic Review was directed to assess:

- The progress and cost of the NBN rollout to date.
- The estimated time and cost to complete the network if it proceeded unchanged.
- The estimated time and cost to complete the network under various alternative designs.
- And the impact of these alternatives on broadband prices and NBN Co's commercial viability.⁷

The Strategic Review report was received by the Government in draft form on 2 December 2013, and approved in final form by the NBN Co Board and tabled in Parliament on 12 December 2013.⁸

The report found Labor's fibre-to-the-premises NBN was roughly two years behind schedule, on track to cost \$32 billion more than forecast, and unable to be finished for at least a decade.

On the other hand, universal access to high speed broadband could be delivered sooner and at lower cost under alternative approaches to the design of the network.

The key findings set out in the 12 December 2013 report included:

- At the end of September 2013, four years into the rollout and after \$6.5 billion of funding, the NBN reached 3 per cent of Australian premises and had fewer than 100,000 users.⁹
- The rollout had achieved only 45 per cent of its target as of September (even though NBN Co's targets were drastically pared in August 2012 in its revised Corporate Plan).¹⁰

⁷ Minister for Communications & Minister for Finance – 'NBN Co Initiates Strategic Review' – Joint release, 3 Oct 2013.

⁸ Strategic Review report: <http://www.nbnco.com.au/content/dam/nbnco/documents/NBN-Co-Strategic-Review-Report.pdf>

⁹ NBN Co – 'Strategic Review Report' – Dec 2013, pp.40-41 (rollout, users) and p.67 (total investment).

- The Labor fibre-to-the-premises NBN would cost at least \$73 billion to complete – 66 per cent more than claimed by the former government prior to the 2013 election.¹¹
- The Labor fibre-to-the-premises NBN would not be finished until at least 2024.¹² When Kevin Rudd announced the FTTP network in April 2009, he said it would be finished by 2018.¹³
- A completed Labor NBN would drive up broadband prices by at least 50 to 80 per cent – equivalent to an increase of \$43 per month in a typical household's bill.¹⁴
- Allowing NBN Co sufficient commercial and technical flexibility to roll out a multi-technology NBN could save \$32 billion, deliver very fast broadband to virtually all Australians by 2019, and leave retail prices unchanged in real terms.¹⁵

Due to time constraints – the analysis in the December 2013 report was carried out in five weeks – this phase of the Strategic Review primarily focused on the fixed line NBN (which will serve 93 per cent of Australian premises).

In February 2014 a second phase of the Strategic Review started, this time focused on the NBN fixed wireless and satellite networks (which jointly serve 1 million premises in regional and remote areas of Australia). It will provide the Government with a report on these at the end of March 2014.

¹⁰ NBN Co – ‘Strategic Review Report’ – Dec 2013, p.40. In August 2012, NBN Co’s June 2013 target for brownfield and greenfield premises passed with fibre was reduced from 1.3 million to 341,000 (other quarterly targets were adjusted accordingly). The figure achieved by June 2013 was 207,000 premises. NBN Co – ‘NBN Co 2011-2013 Corporate Plan’ – Dec 2010, p.77 (original target). NBN Co – ‘NBN Co 2012-2015 Corporate Plan’ – Aug 2012, p.12 (revision) and p.36 (revised target).

¹¹ NBN Co – ‘Strategic Review Report’ – Dec 2013, p.55. Note the Review’s ‘revised outlook’ cost estimate of \$73 billion for Labor’s FTTP NBN assumes a 10 per cent capex ‘contingency reserve’ in line with the NBN Co Corporate Plan. The cost expressed in directly comparable terms to cost estimates for other scenarios is \$78 billion if the same 20 per cent capex contingency assumed in costing all other variants of the NBN is used in the modelling of Labor’s FTTP NBN).

¹² NBN Co – ‘Strategic Review Report’ – Dec 2013, p.11.

¹³ Prime Minister, Treasurer, Minister for Finance & Minister for Communications – ‘New National Broadband Network’ – Joint release, 7 April 2009: “...the Government and the private sector will invest up to \$43 billion over 8 years to build the national broadband network” with rollout commencing “in early 2010”.

¹⁴ NBN Co – ‘Strategic Review Report’ – Dec 2013, p.106. This is only a ‘first round’ price hike – since higher prices reduce demand, to generate revenues sufficient for the 7.1 per cent return on capital specified by Labor would require further increases.

¹⁵ NBN Co – ‘Strategic Review Report’ – Dec 2013, p.102 (timetable, cost) and p.106 (pricing).

Progress on the Multi-technology Mix

- The Chair's report was silent on the swift progress made by the NBN Co in transitioning towards the Strategic Review's recommended multi technology mix.
- NBN Co has advised the Government that to deliver fast broadband sooner, at less cost to taxpayers and more affordably for consumers, the NBN should be completed using a multi-technology mix (MTM).
- These technologies include fibre to the node, fibre to the building, hybrid fibre coaxial cable (HFC), fibre to the premises as well as fixed wireless and satellite networks.
- This approach aims to minimise costs by selecting the appropriate technology to maximise use of existing infrastructure, to make the right investment at the right time.
- This is predicted to save taxpayers \$32 billion, get the NBN finished four years sooner and deliver download speeds of 50 megabits per second to premises in 90 percent of the fixed line footprint by 2019.
- The Strategic Review, delivered to Government on 12 December 2013, has identified that with the use of a multi-technology mix the NBN will cost \$41 billion, a saving of \$32 billion compared to the \$73 billion Labor's NBN would have cost.
- The Government's use of a mix of technologies and existing infrastructure will speed up the NBN rollout schedule.
- It will get the NBN finished four years sooner and deliver download speeds of 50 megabits per second to premises in 90 percent of the fixed line footprint by 2019.
- NBN Co will establish 121 points of interconnect: 80 in metropolitan Australia and 41 in regional Australia. In the view of the Australian Competition and Consumer Commission (ACCC), this semi-distributed network design, where the NBN will reach but not overbuild competitive backhaul routes, is the best long-term outcome for customers.
- The ACCC concluded that this arrangement would best promote retail and wholesale competition across all geographic markets. The government has accepted the ACCC's advice and industry generally supports the design.

Trials of VDSL Deployments

- On 19 November 2013, NBN Co announced they are going to run a pilot program to examine new ways to accelerate the rollout of the NBN¹⁶.
- The FTTB pilot will test the rollout of high speed VDSL broadband to end users in ten apartment complexes and office blocks in Carlton, Brunswick and Parkville in Melbourne. These buildings will comprise up to 1000 individual homes and offices¹⁷.
- The pilot will run for a period of approximately three months.
- Four telcos have signed up to participate in the FTTB pilot: iiNet, M2, Optus and Telstra.
- Vectoring is a technology that helps make copper broadband networks faster. Vectored Very-high-bit-rate digital subscriber line (VDSL) has not been deployed in Australia until now. However, experience from Europe (adjusted for Australian gauge copper) suggests that a very high proportion of vectored VDSL premises can receive download speeds of approximately 50 megabits per second or more.
- The first results for this technology in the FTTB trials have been very encouraging. In one apartment building in Melbourne, over 150 metres of internal copper wiring has been delivering download speeds of more than 100 mbps, with upload speeds of more than 40 mbps.
- The NBN Co is also conducting a series of trials before it moves to a full-scale rollout. The trials allow NBN Co to test different planning processes and construction methods, and to work with telecommunications companies on how services will be activated and assured.
- Work on the FTTN build pilots has commenced in Umina, near Woy Woy on the NSW Central Coast and Epping in Melbourne's northern suburbs¹⁸.
- NBN Co will construct two small scale Copper Serving Area Modules, erecting kerbside node cabinets which will connect NBN Co fibre to spare copper pairs in the Telstra pillar. The company will use equipment provided by Alcatel-Lucent.
- Once active, NBN Co will invite service providers to participate in a FTTN end user trial to test the delivery of high speed broadband to up to 100 premises at each location.

¹⁶ <http://www.nbnco.com.au/about-us/media/news/pilot-program-fibre-to-the-building.html>

¹⁷ <http://www.nbnco.com.au/about-us/media/news/telcos-and-consumers-sign-up-for-fttb-pilot.html>

¹⁸ <http://www.nbnco.com.au/about-us/media/news/nbn-co-prepares-for-revised-rollout-model.html>

Demand Forecasts

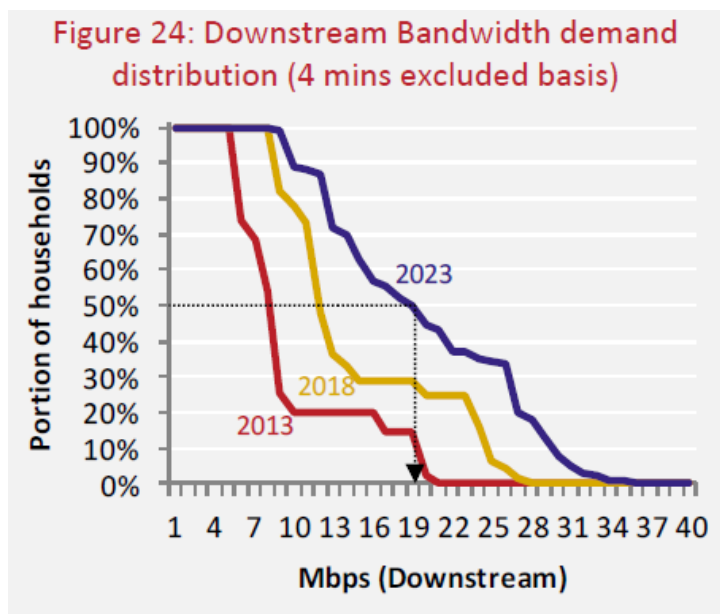
- The Coalition recognises that Australian households are continuing to consume more data every month.
- ABS data shows that over the previous three years the growth of household monthly downloads has been around 50 per cent per year.
- The Chair's report states: "The committee disputes the assumption that consumers are only interested in using bandwidth for video applications"¹⁹.
- However, to say that video is a major driver of bandwidth consumption is not even remotely a controversial claim in the industry. Video continues to be a prime driver of this increased bandwidth demand. Cisco predicts that video traffic will be 73 per cent of all IP traffic by 2017, up from 60 per cent in 2012²⁰.
- The Chair's report also states: "The committee considers that the government's policy does not reflect the service being sought by Australian consumers. Because the policy is based on an incorrect assessment of the needs of consumers, the key elements of the policy – implementing MTM in the rollout and relying on the Telstra copper network – will deliver an NBN which cannot supply the demands of business and communities, particularly those situated in rural and regional Australia"²¹.
- However, this is at odds with industry demand forecasts. For instance, a study by the Broadband Stakeholders Group in the U.K. found that most applications today do not require line speeds beyond 25Mbps - 50 Mbps for optimal performance²². The report found that less than 20 per cent of homes will need download speeds of 25mbps by 2018 and 40 per cent of homes will need those speeds as of 2013.

¹⁹ At 4.4

²⁰ http://www.cisco.com/c/en/us/solutions/collateral/service-provider/visual-networking-index-vni/VNI_Hyperconnectivity_WP.html

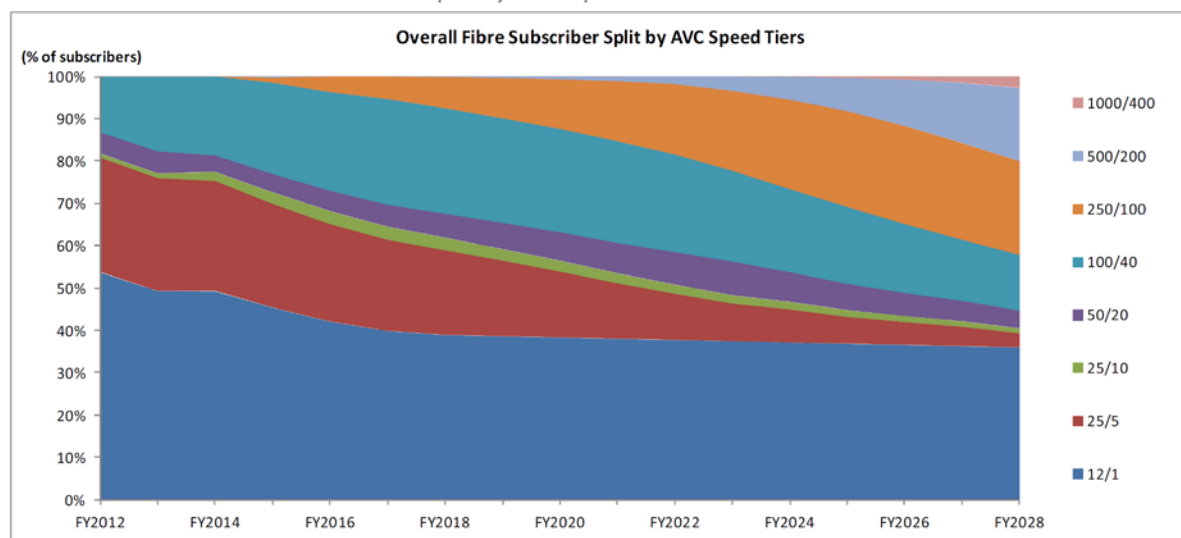
²¹ At 4.9

²² Broadband Stakeholder Group, (2013), Available online [here](#), page 26.



- The NBN’s demand forecasts paint a similar picture, showing that by 2018, less than 40 per cent of premises will require speeds of greater than 25mbps and that by 2023 around 50 per cent of houses will still be accessing speeds of 25mbps or less²³.

Exhibit 8-4: Overall Fibre Subscriber Split by AVC Speed Tiers



Source: NBN Co

Labor’s Failure on the NBN Interim Satellite Service

One of the most regrettable episodes in the development of the NBN brought to the attention of the Committee was the NBN Interim Satellite Service (ISS), a temporary internet access service for Australians in regional and remote areas who have no other way of getting broadband.

²³ NBN Co (2012), (Corporate Plan, 2012-15), p.46

In December 2013 the ISS reached its capacity limit of 48,000 customers, and registrations for new service were closed.

This has triggered understandable outrage in regional Australia, because as late as July 2013 Labor told 250,000 households and businesses (many with other options for getting broadband) that they were eligible for the ISS. Tens of thousands of families who want a service and genuinely have no other option now can't get one.

The ISS is costing NBN Co (and therefore taxpayers) \$351 million – a staggering \$7300 per user.

Only a fraction is recovered because consumers pay similar prices (\$50-60/month for a typical plan, \$24 of which goes to NBN Co.) as in populated areas – even though costs are up to 20 times higher. Yet despite this huge subsidy, users often have worse service than on the old Australian Broadband Guarantee – a Coalition scheme for broadband in remote areas, which averaged \$2500/user in subsidies.

Users were promised download speeds of 6 megabits per second. What they are getting is dial-up speeds, especially during peak hours (between when kids come home from school and late evening). This is because of incompetence under Labor, which allowed a few irresponsible retail service providers to ignore the NBN 'fair use policy' (which limited monthly downloads per user to 9GB) and sell plans with download caps up to 60GB.

A small number of heavy users take up most ISS capacity, and use it so heavily for streaming video and file sharing that performance has been degraded for all 48,000 users. As a result kids in the outback can't get online to do their homework, families can't Skype, and farmers can't access real time market prices or weather.

Originally 165,000 households and businesses were told they were eligible. In theory these were premises without access to any other type of broadband (4G mobile, ADSL or fixed wireless). In early 2013 this was lifted to 250,000 by Labor. As a result, tens of thousands of users who were told they were eligible can't get a service, the 48,000 current users now get terrible service, and thousands of people are being subsidised \$7300 by taxpayers even though they have other types of internet access.

Under Labor's ISS, NBN Co and its retail providers wasted \$351 million of taxpayers funds.

Broadband Quality Project

- Coalition Senators welcome the development of the Broadband Quality Project. The Broadband Quality Project maps the likely available broadband services and speeds in local areas. The Department of Communications Secretary Drew Clarke said:

“I alluded at the estimates hearing to the fact that there were several further developments of the MyBroadband website. Ms Grainger has already alluded to the fact that we are trying to update the underlying data because the status of broadband will continue to evolve. Second, just in the last few days, we have published the underlying data for the 78,000 regions that are mapped in broadband. To support that, we have published as open data the data that you could get if you scraped or interrogated all 78,000 and wrote it all down, because we encourage people to get into it, understand it and critique it.... Third, it is our goal to add a speed test capability directly on the website ourselves, and we are currently going through the analysis of that.”²⁴

- It is expected that underserved areas will, on average, receive fast broadband services 2 years sooner than they would have under Labor. This is a significant benefit to those living in areas where fast broadband services are not presently available.
- Coalition Senators believe that those with no or limited services have the most to gain from the rollout of fast broadband. Coalition Senators therefore strongly support the Government’s commitment to prioritise underserved areas in the forward rollout plan.

New NBN Board

- The new Government have put in place four new board members at the NBN Co with extensive industry knowledge and experience – particularly in deploying linear infrastructure – to increase the level of oversight they are able to provide on this project.
 - **Ziggy Switkowski: Appointed as executive chairman, Dr Switkowski is one of Australia’s most respected executives in telecommunications. He is a former CEO of Telstra and Optus, at times when they were rolling out and upgrading their networks.**

²⁴ Committee Hansard, March 12,

- **Patrick Flannigan:** Former Head of Construction at the NBN Co and founder of the Utility Services Group, which employs approximately 2,000 people nationally, servicing linear infrastructure in the electricity, gas, water and telecommunications sectors.
 - **Justin Milne:** Former Managing Director of MSN, Microsoft's first entry into the internet portal business, a former CEO of OzEmail Managing Director of Telstra BigPond and later Group Managing Director, responsible for Bigpond and Telstra Media.
 - **Simon Hackett:** Founder of Internode and sister company Agile Pty Ltd, a licensed telecommunications carrier. He has deployed networks to deliver ADSL2+, Optical Fibre, Microwave, and Fixed Computer Society. Simon will resign his position on the board of iiNet Limited at the end of this month to focus on his role with NBNC.
- Recent comments by members of the previous board suggest that they were frequently ignored and hampered in their role of providing oversight by the previous Government (see comments below, in 'Culture of the NBN Co').
 - The previous board also had a long and protracted disputes with senior members of the NBN Co executive. Former Chairwoman Siobhan McKenna sought the replacement of CEO Mike Quigley²⁵ and reportedly intervened to prevent the Minister meeting with the CEO without her being present²⁶.
 - The Coalition members note that the new Board has acted professionally and harmoniously and welcome the new level of oversight introduced to this important project.

Culture of NBN Co

- The Strategic Review has identified that NBN Co currently has some very significant limitations in terms of performance, capabilities and culture. The building of a national broadband network is a huge, complex undertaking. In order to achieve its objectives, a major transformation of NBN Co is required²⁷.
- Between the widespread deployment of fibre to the cabinet plus VDSL2, the emergence of vectoring and bonding, the initial commercial trialing of fibre to the distribution point, and emerging protocols such as g.fast, the past five years has seen significant technological advancements in the way copper is used²⁸.

²⁵ McDuling, J., (2013), "McKenna in Push to Replace NBN Chief Quigley", available online here: http://www.afr.com/p/technology/mckenna_in_push_to_replace_nbn_chief_3XKzAbKOgffIS3IajLYB2M

²⁶ Kitney, D., (2013), "Siobhan McKenna Rolling Out a Revolution at the NBN", available online here: <http://www.theaustralian.com.au/business/in-depth/siobhan-mckenna-rolling-out-a-revolution-at-nbn/story-e6fgrgaf-1226630372814>

²⁷ Strategic Review, Page 114 - <http://www.nbnco.com.au/about-us/media/news/strategic-review.html>

²⁸ Minister Turnbull's speech at the NBN Rebooted Conference 18 November 2013.

- A more nimble approach to designing (and imagining) the NBN can preserve this technological optionality.
- If investment decisions can be deferred until demand either materializes or can reasonably be foreseen, savings arising from the time value of money are not the only economic value generated.
- In plain terms this means keeping the option open of doing something different than what might seem at a certain point in time to be the answer – of responding to changing technology and changing market conditions.
- The Strategic Review found that changing the culture and re-directing and re-focusing the organisation will take several months, so while there may be some short-term uncertainty, transforming the organisation will be critical to its success²⁹.
- The Strategic Review recommends this transformation address: reinforcing and aligning the leadership and governance; investing to lift and leverage capabilities in key areas such as dealing with partners, project management and capabilities in copper and HFC; and defining an operating model with clear accountabilities and performance metrics overall and by function³⁰.
- The Independent Assessment identified areas requiring improvement in relation to the culture and leadership of NBN Co³¹:
 - Staff cite many examples of inaccurate information, lack of robust challenge, fear of contradicting senior staff, and mistrust in the motives of some leaders.
 - Duplication of roles across some functions has impeded collaboration, confused roles, and reduced efficiency.
- A number of examples exist of the professional staff of the NBN being unable to tell their political superiors news they didn't want to hear:
 - Former CEO Mike Quigley recently told an industry conference: “You do think, should I have been more conservative? But the timescales are already set for you, the time frames are already put out there for you so there's not much you can do.”³²
 - Additionally, when former Board Member Diane Smith-Gander was asked whether the former board had asked the Government to conduct a cost-benefit analysis into the NBN, she said: “Think about the notion of suggesting anything to Minister Conroy.”³³

²⁹ Strategic Review, Page 115 - <http://www.nbnco.com.au/about-us/media/news/strategic-review.html>

³⁰ Strategic Review, Page 114 - <http://www.nbnco.com.au/about-us/media/news/strategic-review.html>

³¹ Strategic Review, Page 72 - <http://www.nbnco.com.au/about-us/media/news/strategic-review.html>

³² Jabour, B., (2013), available online here: <http://www.theguardian.com/technology/2013/dec/03/labors-broadband-one-hurdle-from-success>

³³ Hutchinson, J., (2014), Ex-NBN Deputy Chair Smith-Gander Has ‘No Regrets’, available online her: http://www.afr.com/p/technology/ex_nbn_deputy_chair_smith_gander_kevo1VbasOIzQk5hLoIroN

- NBN Co Executive Chairman, Dr Switkowski has suggested the culture at NBN Co has not been conducive to producing accurate information about the NBN. Dr Switkowski stated:

“I think this followed a line of questioning that suggested that there was a lot of data being published routinely by NBN in the past and that that data is now of a different form and less voluminous than it used to be. That, broadly stated, is correct. But as we have said in this forum and in the subcommittee forums, what was very, very clear as it changed over in the September-October period was that within NBN there was this culture of acquiescing or even supporting quite unreasonable forecasts—unreasonably optimistic—and not recognising that the actual performance and the trend was moving sufficiently far away from those forecasts as to make the gap unable to be closed under any set of reasonable interventions. The information that was out there, aside from the headlines that generated it in the media, in business and in households as to the imminence of access to the NBN was uneven in its accuracy. There were colours on maps that said NBN is in your area and you will be able to connect within whatever the number was—12 months. Twelve months later, that was still the case and it was still 12 months out. I do not for a moment criticise the original intent—I think the intent was good; it was to be complete in the disclosure of the information—but it was not kept accurate or current. Then as the pressure increased on NBN, in terms of our failure to hit targets, those maps were not adjusted and those forecasts were not adjusted finely enough. In the end, I thought—others did too—that they were misleading. So we have cut back on the maps, indicating only those areas where we know construction has commenced and where we are confident that a person reading those maps can reasonably conclude that they will be connected in a reasonable period of time”³⁴.

NBN Transparency

- The Chair’s report stressed the importance of transparency in the NBN project.
- The Coalition members note the Chair has not lost her sense of irony. The shortfalls of the previous Labor Government when it comes to transparency were legend:
 - The Labor cabinet was briefed ahead of the election that delays had increased funding costs on the project by \$1.4 billion and that consultants KPMG had warned the Government the rollout targets were “presenting a significant risk to the project” and that this “has not been achieved in any international comparison”³⁵. Yet Communications Minister Anthony Albanese told the ABC ahead of the election, “the corporate plan was considered by KPMG. They found that it was, in terms of the timelines and the costings, that all the assumptions were good.”³⁶

³⁴ Hansard, 25 February 2014, pages 68-69

³⁵ Kenny, C., (2013), “Labor Knew of NBN Rollout Risk”, available online [here](#).

³⁶ ABC, (2013), “NBN Debate”, available online [here](#).

- The Labor cabinet was briefed by its own bankers, Lazard, that the project would have a negative net present value of \$31 billion³⁷.
- Did not publicly disclose that many houses being passed were could not be serviced and were classed ‘Service Class 0’ – rather, it was leaked to media, which reported that up to 91 per cent of some ‘Ready for Service’ sites were so classified³⁸.
- Release of rollout progress was sporadic and was timed to minimise embarrassment for the then Government. For instance, write downs for the company’s June 30, 2013 targets were announced under the cover of the Labor leadership challenge on March 21, 2013³⁹.
- By contrast, the current Government have introduced a number of important transparency measures, including:
 - The undertaking on an independent Strategic Review, which for the first time gave the public a real insight into the true costs of the project – in time and dollars.
 - The NBN Co has begun publishing rollout progress and uptake on a week-by-week basis; these statistics provide a state-by-state breakdown of the rollout and cover service class ‘0’ premises.
 - The NBN recently held a quarterly analyst briefing, where senior NBN executives took questions from analysts, journalists and senior
- The Chair’s report was also critical of redactions in the NBN Strategic Review. For instance, the Chair’s report stated: “Further, some redactions create a mockery of the report. For example, the committee is of the view that the following graph reproduced from page 64 of the strategic review is rendered completely useless in its redacted form.”⁴⁰
- The previous Government regularly redacted material that contained commercially sensitive material. In one extreme case, Labor attempted to force senators to pass crucial NBN legislation without seeing its Corporate Plan; independent senators were asked to sign a seven-year non-disclosure agreement in exchange for viewing the plan – and then released a heavily redacted version of the plan⁴¹.
- The previous Government also had a habit of presenting material to NBN committees and hearings with no financial information included. For instance, in February 2013, the NBN Co gave a presentation to estimates on the costs of the project, which included no actual costs of the project, as the slide shows:

³⁷ Kenny, C., (2013), “Labor Told of \$31 Billion NBN Risk”, available online [here](#).

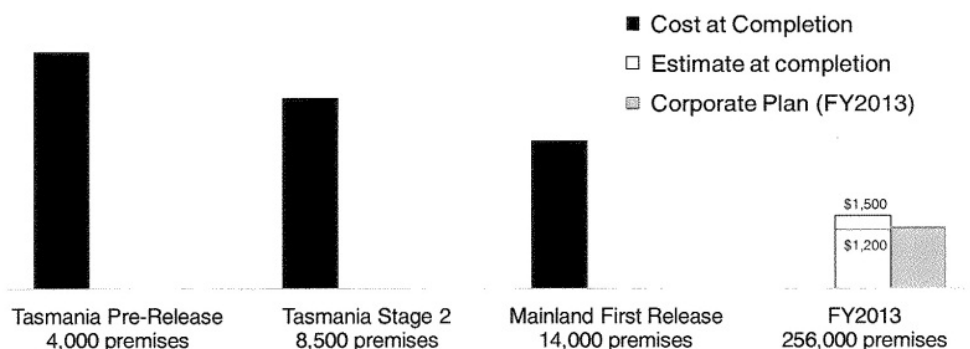
³⁸ For instance, Ramli, D., & Hutchinson, J., (2013), “NBN Statistics Reveal Many Can’t Connect”, available online [here](#).

³⁹ Cai, P., (2013), “NBN Admits to Three Month Delay”, available online [here](#).

⁴⁰ At 3.22

⁴¹ ABC, (2010), “Cracks in the Government’s Cone of NBN Silence”, available online here: <http://www.abc.net.au/am/content/2010/s3072564.htm>

LNDN Capex Per Premise Passed



- The Chair’s report and Opposition members also referred repeatedly to draft 2013-16 Corporate Plans. This was given to the Government prior to the caretaker period and it was rejected by the Government because further downward revisions needed to be made, to take into account the failing contractor model and stoppages due to asbestos.
- Under questioning about its release, then Minister Anthony Albanese claimed it couldn’t have been accepted by the Government (and hence released publicly) in the election campaign: “Well, if we receive it, it’s gotta be gone through the cabinet process. Of course we are now in caretaker mode.”⁴²
- Immediately after the election, the plan was leaked to the *Australian Financial Review*.

Communication with Consumers and Stakeholders

- The NBN has suffered significant reputational damage as a result of significant construction delays and the promotion of unrealistic rollout schedules.
- The failure of NBN Co under Labor to honestly report what was happening on the ground and keep its promised rollout commitments caused significant uncertainty and angst for the communities being misled.
- NBN Co stated that:

“It is estimated that the average time from construction commencing to NBN services being available is 12 months.”⁴³
- However, a range of factors – both within the NBN Co’s control and external to its control – meant that the true construction timeframe was much less predictable.
- Local residents have been frustrated at the apparent delays. For example NBN Co told residents that construction had commenced Ascot in September 2012, and would be complete in late 2013. And yet, construction contracts had not

⁴² ABC, (2013), “NBN Debate”, available online here: <http://www.abc.net.au/lateline/content/2013/s3824057.htm>

⁴³ NBN Co website.

been issued by the time of the election. These contracts have now been issued and work is underway.

- The timeframes Labor gave communities often did not reflect reality and in many cases were extremely misleading.
- The Government is committed to providing communities with accurate information about the rollout. In order to achieve this NBN Co has begun using common sense language and definitions.
- For instance, NBN Co no longer uses the phrase ‘construction commenced’ which under Labor may have merely reflected that high level design work had commenced, but instead now uses the term ‘build commenced’ when construction contracts were actually signed. These terms provide communities with a much clearer understanding of where the rollout is up to in their community.
- As part of this commitment to be honest with Australians NBN Co now provides realistic maps detailing where the build has commenced and where services are available. As a result of this change some areas have been temporarily removed from the rollout maps as no actual construction work was underway. Accurate information about the rollout in these areas will be made available soon.
- Coalition Senators also note that several severe write-downs in the targets for the FTTP rollout to 30 June 2013 occurred under Labor, including a cut of about a third from 341,000 premises to between just 190,000 and 220,000⁴⁴. Further, the Government was aware ahead of the election that the 2012-15 corporate plan forecast for June 2014 would be written down⁴⁵. Despite this significant cut no alteration was made to NBN Co’s forward rollout maps to reflect that a significant number of premises had been delayed and would not be ready for service within the promised 12 month window.
- It is ironic that the Chair’s report cites ‘confusion’ caused by the changes to a multi-technology mix model when the previous Government’s rollout schedules left communities waiting, in some cases for years on end, with no accurate information about the rollout of the NBN.
- Many Labor MPs actively exaggerated the progress of the rollout in their own communities. The Member for Adelaide, the Hon Kate Ellis MP stated in November 2011 that :

“Prospect was first announced by the Federal Government as one of the first sites in Australia to be connected to the NBN in June 2010. I have been advocating for Adelaide residents to be able to access high speed and affordable broadband for many

⁴⁴ NBN Co, (2013), March 21

⁴⁵

years and am thrilled that we are among the first in the country to be connected to the network."⁴⁶

- Ms Ellis has been telling her community for years that they will soon have the NBN. It speaks volumes for the failure of the project to date that after 4 years she is still correct in stating that Prospect will be one of the first areas in the country to be connected.
- Coalition Senators note that a significant source of uncertainty for communities results for Labor MPs' claims to their constituents. For instance Labor's Shadow Assistant Minister for Communications, Michelle Rowland MP, told her constituents that "They (the Liberals) will rip the NBN out of the ground."⁴⁷ Labor MPs false claims have created the uncertainty they now criticise.
- As NBN Co Chief Operating Officer Greg Adcock mentioned at a recent half yearly results hearing, the changes have been designed to *reduce* uncertainty in the rollout. As ongoing

"One of the reasons for this and one of the key reasons for this was to give communities and commentators, the main users of the maps, a predictable indicator of the status of the rollout. As mentioned previously, the lifecycle of an FSAMs construction varies wildly, mainly during the design phase. We therefore now show when the actual instruction for construction has been issued following acceptance of a design."⁴⁸

Wrongful Claims that the Rollout Has Slowed

- The Chair's report asserts that the rollout of the NBN has slowed.
- Such a claim is bizarre. While it is true that the rollout of the NBN ground to a virtual halt under Labor in mid-2013, due to asbestos stoppages, since the change of Government the Coalition has overseen the remobilisation of contractors and significant progress in the rollout.
- The Chair's report highlights comments from officials of the former Tasmanian State Labor Government stating that while they had no actual evidence, anecdotally they felt it had slowed⁴⁹. The Tasmanian State Labor Government officials were not able to provide evidence because it is a patently false assertion.
- In actual fact NBN Co rollout figures demonstrate that the Coalition Government is on track to pass more premises in Tasmania this year than in the entirety of the project under Labor.

⁴⁶ Ellis, K., (2011), available online here: <http://www.kateellis.com.au/newsroom/592/>

⁴⁷ <http://www.dailytelegraph.com.au/newslocal/west/greenway-combatants-ready-to-do-battle-in-labors-most-marginal-nsw-seat/story-fngr8i5s-1226565294268>

⁴⁸ NBN Co, (2014), "Transcript of Half Yearly Results", available online [here](#).

⁴⁹ At 4.34

Total Premises Passed by fibre in Tasmania – Both Greenfields and Brownfields

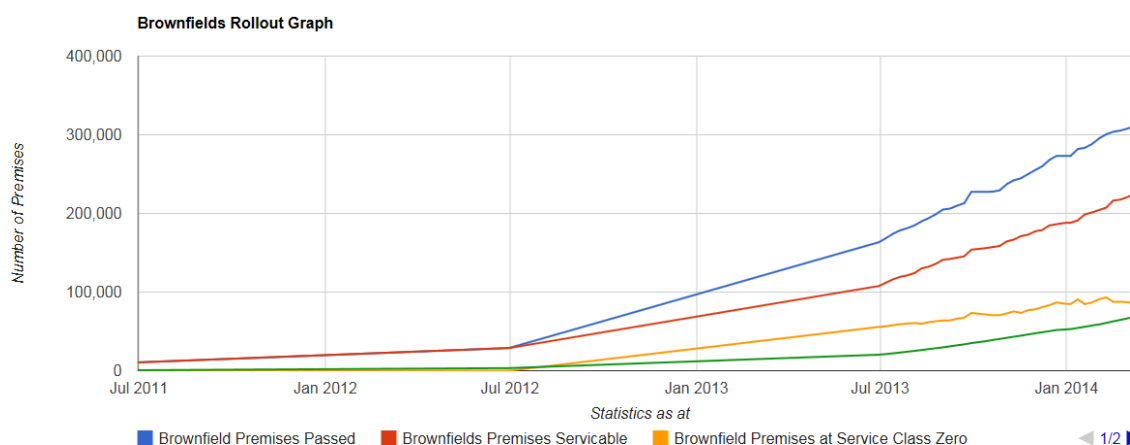
	As at Sept 2 2013	2014 construction (projected)
Premises passed	32,020	36,000

- Far from slowing the rollout these figures demonstrate that the Coalition has released significant volumes of work for Tasmanian contractors this year. Under the Coalition the pace of the rollout in many instances has actually increased, including in Tasmania.
- NBN Co is also progressing the rollout around the country:

Total Premises Passed by fibre– Brownfields

	Premises Passed	Premises Serviceable	Premises at Service Class Zero	Premises Activated
8 September 2013	206,214	142,183	64,031	31,075
16 March 2014	321,097	229,907	91,190	70,430

- In just over 6 months since the election of the Coalition NBN Co clearly has significantly improved NBN Co's rollout performance. The disingenuous assertions made by Opposition Senators that the rollout has slowed is simply not back up by the facts.
- As the myNBN site shows, there only evidence of a slowdown is the number of 'Service Class 0' premises:



- The Coalition notes the irony of Labor MPs accusing the Government of slowing down the rollout. In six years of Government, they managed to upgrade only 2 per cent of households in Australia.

- The previous Government was well aware that significant write-downs would have to be made to the NBN rollout, well before the change of Government. This was made clear in evidence provided to the Committee⁵⁰:

Senator RUSTON: As for the revision down from the 1.2 million to the 600,000—and this may not be a question to you Mr Adcock because you were not around at the time—what was the basis for that downsizing or that reducing of the target?

CHAIR: Now you wouldn't answer any questions from me about version 13—

Senator RUSTON: I am not asking about any versions—

CHAIR: The 600,000 is from version 13, just so you are very clear.

Mr Adcock: It was the number that was presented to me.

Senator RUSTON: Okay. I don't care which version this is in, to be perfectly honest.

CHAIR: That's very funny.

Senator RUSTON: Well, I'm glad you find it amusing.

Mr Adcock: It was the public number when I arrived there.

CHAIR: I agree, because that was what the version 13 number was. But I am happy to ask questions about version 13. If you want to answer questions about version 13, I have got about 50 you have taken on notice and we can go back and start again.

Senator RUSTON: Let's go back to version 12, because we all accept that version 12 is a legitimate document. Let's go back to whatever document that currently has full status. Could you—whoever—please run me through what were the main reasons in your opinion for the need to look at a lower number in projections? What—and just as an example if you want to be really specific—was the impact of the asbestos find on these numbers?

Mr Brown: Let me have a go first. There were three particular influences in terms of our ability to achieve any number we set ourselves. The first one was the mobilisation of the construction companies themselves. It is on the record that they were struggling with getting the sequencing of work right and their subcontractor base mobilised to do the job. So it was one of the drivers. The second one relates to the design approval process and expediting the designs back out of the hand-offs between ourselves, Telstra and the construction companies that were involved in that.

The third one was delays due to asbestos out of Telstra. However, I would note that these were the smallest of the three categories of reasons for why we were forecasting down the numbers.

- The sentiments expressed in the Chair's report are at odds with the admission by the former Minister Stephen Conroy that the contractor model put in place by the NBN Co has failed:

“What we found was that the construction industry were unable to deliver on their contractual obligations. And back in March-April, the NBN Co actually sacked Syntheo in the Northern Territory, have now effectively sacked Syntheo in South Australia, and have already brought in other providers before the election to begin work on the ground in Western Australia because Syntheo had failed to meet by not just a small margin, but an extraordinary margin their contractual obligations ... So ultimately - and I think I said this on Friday - I think the construction model that NBN Co put in place hasn't delivered.”⁵¹

⁵⁰ Hansard, 11 December, p.35

⁵¹ ABC, (2013), “Stephen Conroy Discusses NBN and Working with the Construction Industry”, available online here: <http://www.abc.net.au/lateline/content/2013/s3868978.htm>

Senator Conroy's True Legacy - \$38 billion of Costs for ANY version of the NBN

The NBN Strategic Review estimates a mixed technology NBN will require \$41 billion, a vast sum. To Telstra's costs for a similar upgrade were put at \$15 billion by its then-CEO Sol Trujillo in May 2008.⁵²

Coalition Senators note some factors driving up the price of the NBN are outside government's control. Labour and materials are more expensive in Australia than comparable countries.

Unlike Telstra, NBN Co doesn't own an existing network it can leverage, and must pay for access if it is to take advantage of legacy infrastructure.

Greater prudence in forecasting is also a factor. All but one of the cost estimates in the Strategic Review reflect the new management's view that NBN Co should hold a 'contingency' budget (reserved against cost overruns) of 20 per cent of capex, given the project's risks. The exception is the Review's revised outlook for the Labor NBN, where total costs for Labor's NBN, where the contingency is 10 per cent of capex, as in the NBN Corporate Plan.

(Note that on a 'like-for-like' basis where both plans are costed using a 20 per cent contingency, total projected funding required for Labor's NBN rises from \$73 billion to \$78 billion.)

But the real drivers of the NBN's final price tag are vast financial obligations entered into under Labor that the network must now bear:

- In June 2011 NBN Co agreed to pay Telstra and Optus to gradually migrate customers to the NBN and decommission their rival networks. It also agreed to 35-year leases over Telstra dark fibre, ducts and exchange space. The current Corporate Plan forecasts the resulting payments will account for 90 per cent of direct opex and total about \$17 billion from 2011 to 2021.⁵³
- To deliver the network promised by Labor, NBN Co has committed to far more costly investments in satellite, wireless, its transit network and its IT systems than first thought. The Strategic Review estimates capital expenditure on these (and network design) will total \$12.8 billion from 2011 to 2021 – \$3.6 billion or 40 per cent more than estimated in the current Corporate Plan.⁵⁴

⁵² Grahame Lynch – 'Comment: Here Cometh the Reality Check' – CommsDay, 28 May 2008.

⁵³ NBN Co – 'Strategic Review Report' – Dec 2013, pp.51-52: "Approximately 90 per cent of total direct operating expenditure" in 2011-2021 is paid to Telstra and Optus. Exhibit 2-17 shows direct opex is \$19 billion in those years.

⁵⁴ NBN Co – 'Strategic Review Report' – Dec 2013, exhibit 2-25, p.61. Revised non-FTTP capex is \$12.8 billion excluding the contingency, up from \$9.2 billion. Most satellite, transit, IT BSS/OSS and wireless capex is committed.

- NBN Co has ramped up overhead expenses (salaries, travel, legal advice, consultants, office space, recruitment and advertising) far ahead of both its revenues and network rollout, to about \$700 million per year.⁵⁵ The current Corporate Plan forecasts ‘other’ (overhead) operating expenses will total a staggering \$7.9 billion from 2011 to 2021. That is more than double the estimate offered to the public by the Labor Government and NBN Co in the original Corporate Plan in 2010.⁵⁶

Combined, these three areas amount to \$35-38 billion of spending commitments between 2011 and 2021 locked in under Labor’s watch.

The overwhelming majority of these obligations must be met in full if the NBN is to be completed. This is true regardless of choices about network design or technology. Coalition Senators note it is true under Labor’s NBN, and under the five alternative scenarios modelled in the Strategic Review – all confront \$35-38 billion of financial commitments if the NBN’s fixed, wireless and satellite networks are rolled out to all Australian premises.

It is important to realize this is BEFORE a single cent is spent upgrading the fixed network that 93 per cent of Australian premises will rely on for very fast broadband. Crippling costs of \$35-38 billion for any NBN, before spending anything on the fixed network, are Senator Conroy’s true legacy.

Senator Zed Seselja (Deputy Chair)
Liberal Senator for ACT

Senator Anne Ruston
Liberal Senator for SA

Senator Dean Smith
Liberal Senator for WA

⁵⁵ NBN Co – ‘Strategic Review Report’ – Dec 2013, exhibit 2-18, p.53.

⁵⁶ In 2010 ‘other’ (non-direct) opex was forecast at \$3.7 billion for 2011-2021. In 2012 this increased to \$7.9 billion. NBN Co – ‘NBN Co 2011-2013 Corporate Plan’ – Dec 2010, p.135; ‘NBN Co 2012-2015 Corporate Plan’ – Aug 2012, p.77.