

Executive Summary

Cost and timeframe

Eighteen months into this government's term, NBN Co is still too 'uncertain' to divulge how much the multi-technology mix (MTM) will cost or how long it will take to build. The committee notes that the headline financial and deployment numbers that have been divulged to date by NBN Co and the government are dated and unreliable.

The committee found in March 2014 that NBN Co's Strategic Review was 'unreliable in the case of all examined scenarios'. Completed in just five weeks, with no external independent oversight, the committee found that it contained 'financial manipulations and other irregularities'. Over the past 12 months, these concerns have been largely borne out, with key NBN Co management distancing themselves from the report. The committee notes that the Strategic Review underpinned shareholder ministers' decision to direct NBN Co to implement the MTM in April 2014.

The reduced credibility of the Strategic Review for critiquing fibre to the premises (FTTP) policy options has led to yet another review (the 'cost per premises review'). NBN Co has released detailed historical costs for FTTP and fixed wireless—despite the fact that the majority of the rollout under this Government will be made up of hybrid fibre coaxial (HFC) and fibre to the node/basement (FTTN/B), for which NBN Co has divulged no costs. Further, most of the cost increases for FTTP evident in the cost per premises review may be attributed to higher rates and dispute claims negotiated by current NBN Co management since September 2013, and changed accounting practices (such as capitalising operational expenditure). \$4.5 billion in FTTP architecture savings signed off by previous management—attested to by NBN Co personnel as implemented, and borne out by the Melton 10 trial—also appear to have gone missing in these numbers. The committee considers that the cost per premises review should be treated with caution.

The public 'glossy' version of the 2014-17 corporate plan contains no updated forecasts from the Strategic Review, no forecasts for financial year (FY)2016 and FY2017 and no details of NBN Co's financial model out to 2040 (as per previous corporate plans). Further, forecasts for FY2015 contained in the 2014-17 corporate plan have been politically manipulated. The committee notes that the independent external review process of NBN Co's corporate plan has been cancelled by this government. The public version of the NBN Co 2014-17 corporate plan should also be treated with caution.

The committee notes that 18 months into this government's term, the Australian parliament and the Australian people are being kept in the dark by the Minister and NBN Co on the cost and rollout timeframe of the NBN.

Recommendation 1

The committee recommends that NBN Co release an unredacted version of the Strategic Review to enable proper public scrutiny of the assumptions underpinning Scenarios 1 to 5. The committee considers that there are no commercial implications to releasing analysis and forecasts relating to abandoned scenarios.

Recommendation 2

The committee recommends that the government release the full version of NBN Co's 2014-17 corporate plan, as was the practice under the former government, to enable the proper public scrutiny of the project.

Recommendation 3

The committee recommends that the government release the full version of NBN Co's 2015-18 corporate plan, when finalised, to enable the proper public scrutiny of the project.

Recommendation 4

The committee recommends that the government reinstitute the external independent review process of NBN Co's corporate plan to restore the proper probity and accountability to the project.

Governance

NBN Co refuses to divulge the value of the contracts it has entered into on behalf of the taxpayer on the basis that it would harm its commercial prospects, despite the fact that the value of these contracts was released by previous management without harm. Yet NBN Co is content to release detailed historical costs of FTTP and fixed wireless—despite the fact that NBN Co will need to secure contracts to roll out these technologies to 2020 and beyond.

The Revised Agreements, announced by NBN Co and Telstra in December 2014, contain numerous concessions, including *inter alia*:

- the risk of cost increases in remediation has been transferred directly to the Commonwealth. The new remediation arrangements may also result in the transfer of an asbestos risk to the Commonwealth; and
- NBN Co has taken on an indefinite liability to maintain Telstra's HFC network, and at the same time agreed to restrictions on its sale. It is unclear whether these arrangements will result in an effective taxpayer subsidy of pay TV services.

The committee considers that the minister's assertion that these agreements will result in 'no additional cost to taxpayers' is wrong. The taxpayer has lost value in these renegotiations. The committee further notes that the NBN Co officer heading up the negotiations on behalf of the taxpayer still owns Telstra shares.

NBN Co will incur substantial new costs that are not being divulged by the board or management of NBN Co. This includes new costs from the Revised Agreements and significant IT costs. On 15 December 2014 Telstra divulged detailed information to the market on the Revised Agreements, but NBN Co, on behalf of the taxpayer, issued a two-page press release light on details and heavy with political spin. This level of secrecy is unacceptable for a government business enterprise (GBE) accountable to the parliament and the Australian people.

The committee remains concerned about the probity issues evident in the appointment of key personnel to NBN Co, identified in the committee's first interim report. This includes the appointment of the minister's 15 year yachting partner to head up the Strategic Review. The committee is equally concerned with the probity issues evident in the appointment of key personnel to the government's many review processes. This includes the appointment of strident NBN critics and former Liberal Party staffers to conduct the Cost-Benefit Analysis.

NBN Co's 2013-14 annual report contains more probity issues. It indicates that NBN Co approved a \$60,000 contract to CicoMilne Pty Ltd, a company 100 per cent owned by one of its own board members, Mr Justin Milne. The Department of Communications also awarded a \$14,000 contract to CicoMilne Pty Ltd. According to media reports, Mr Milne was approached by the Coalition for an NBN Co position as early as June 2013.

Under the applicable legislation and regulation, GBE personnel are obliged to be apolitical. GBE boards are also required to exercise high standards of fiduciary responsibility and transparency. It is the committee's view that the government and the board of NBN Co are failing in their responsibilities to the Australian taxpayer.

Recommendation 5

The committee recommends that the government investigate the governance and probity issues identified in this report and the first interim report. This should include consideration of NBN Co personnel shareholdings, the awarding of contracts to board members, the pervasive secrecy shrouding the project, and the potential liabilities that have been transferred to the Commonwealth as part of the Revised Agreements.

Other reviews

The committee considers that the government's many reviews of the NBN over the past 18 months—at a cost to the taxpayer of more than \$10 million dollars—have

been conducted as part of what former ACCC Chair Graeme Samuels described as a 'political payback' process rather than a genuine effort to illuminate the policy framework and options available to the government to roll out the NBN.

The Cost-Benefit Analysis (CBA) conducted by the Government is deeply flawed and not credible. Compiled by personnel hand-picked by the minister, including strident NBN critics and former Liberal Party staffers, the CBA is replete with absurd assumptions and dubious manipulations. The Review of Regulation was conducted by the same personnel, with predictable results. One former board member of NBN Co described the Governance Review as a 'witch hunt', with others noting that 'we generally disagree with the findings in the [report], and consider a number of them to be unsupported by the facts'. The 'Independent Audit of the NBN Policy Process' has been described by a former ACCC Commissioner as 'fundamentally flawed in its evidence base' and insulting and offensive in its dismissal of the evidence. The Broadband Quality and Availability Report has also been widely lampooned for inaccuracy.

The committee considers that these reviews do not comprise a suitable evidence base upon which to make decisions about the NBN.