



Australian Government

Statement by the Minister for Communications

The Hon Malcolm Turnbull MP

STRATEGIC REVIEW OF THE NATIONAL BROADBAND NETWORK

12 December 2013

Madame Speaker,

The National Broadband Network is the nation's largest and most costly infrastructure project.

Regrettably, it is also the most misunderstood and misrepresented. That is because for the four years of its life under Labor, the NBN has been shrouded in a web of spin, obfuscation and exaggeration.

Forecasts have been set, missed, set again, missed again, set a third time, and missed a third time.

Beguiling promises have been offered but not delivered.

This is not a question of fibre versus copper. The key issue is only how far fibre optics are pushed out into the network and whether they must reach into every home and every business or, whether existing copper infrastructure can be used for the last few hundred metres and in so doing save much time, inconvenience and many billions of dollars.

The NBN project needs, more than anything, an end to spin.

After I became Minister for Communications, I wrote to the employees of NBN Co, telling them this Government expects to receive the unvarnished truth, not what they think we want to hear.

Forecasts, business plans and practices need to be informed by sober reality. NBN Co's people must be free to express their views and perform their work without worrying whether they are contradicting a Minister's press release.

1. Background to the Strategic Review

On October 3 the Government asked NBN Co to undertake a Strategic Review of this vitally important project. In a nutshell we posed three questions:

- Where is the project now?
- How much will it cost and how long will it take to complete under Labor's specifications?
- And what are our options for completing it sooner and at less cost?

NBN Co delivered a draft report on December 2 and its final report today. We are releasing the final document presented by NBN Co in full, subject only to certain redactions sought by the Company to protect its interests in current and prospective legal and commercial agreements.

The Strategic Review confirms what many Australians suspected, but both of my predecessors as Communications Minister shamefully concealed from the public.

- The rollout is two years behind after three years and won't finish until the mid-2020s.
- Costs are so high that they will add \$43 per month to a typical household's broadband bill.
- And NBN Co faces a daunting internal transformation under its new leadership.

Critically, this report is not reverse engineered to justify or rationalise government policy – whether set out in a speech, conjured up by press release or sketched on the back of a drink coaster.

I emphasise this point because the facts so methodically presented in the Review make it plain that the NBN is in a worse state than Australians have been told..

- We were told the case for a fibre-to-the-premises NBN was so potent there was no need for cost-benefit analysis.
- We were assured this costly project could be built without any increase in broadband charges.
- And we were repeatedly told the rollout was on schedule and within budget.

Even just prior to the September 7 election, long after it was clear to most observers that the rollout was missing every goal, the Member for Grayndler continued to assert 5.5 million households and businesses would get the NBN by 2016.

The former Minister knew that was untrue as demonstrated by the draft 2013 NBN Co Corporate Plan he had received, and accorded to a leaked minute published in The Australian presented to Cabinet in July.

Madam Speaker, turning this project around is a formidable challenge, but we are determined to complete the project as quickly as we can, at the lowest possible cost to taxpayers, and affordably for consumers.

And we are equally determined that in the rollout of the NBN, the many Australians without adequate fixed line broadband today, particularly in regional areas, receive top priority.

2. Progress & Prospects of the Current Rollout

I will start by outlining the Strategic Review's findings regarding the previous Government's NBN policy. Because the situation at NBN Co is far worse than Parliament and the public were led to believe, worse even than the most trenchant critics of the NBN imagined.

Rollout Schedule

Construction of the network has fallen further and further behind schedule. At the end of September the Labor NBN's fibre, satellite and wireless networks were available at 384,000 homes and businesses.

- That's barely 3 per cent of the 13 million premises NBN Co must reach to finish the job.
- It's only 45 per cent of the forecast for September in NBN Co's latest Corporate Plan.
- And it's over a million premises behind Julia Gillard's rollout announcement in December 2010.

Because of construction delays, the Strategic Review estimates Labor's NBN will not be completed until 2024. That's three and a half years later than stated in the Corporate Plan, six years later than claimed in Labor's original FTTP plan in 2009, and eleven years later than promised by Kevin Rudd in 2007.

Service Delays

The brownfields rollout – which is connecting homes and businesses in established areas – is in even worse shape. At the end of September 227,000 premises were 'passed' with fibre, which normally means the occupant can order a service and receive it within a few days.

But 74,000 were 'service class zero,' a term unique to NBN Co, which indicates they cannot foreseeably obtain service. These are mostly businesses and multi-dwelling premises such as apartment blocks.

A further 104,000 were 'service class one,' which indicates fibre hasn't yet been run from the street into the household or business. This can take six months or more. So the bottom line is that the occupants of fewer than one in four established premises 'passed' by fibre can order service and expect to get it in a reasonable and predictable timespan.

Costs & Revenues

The cost of constructing the NBN to Labor's plans has also blown out. The Strategic Review estimates completing it requires funding of \$73 billion – another \$29 billion or 65 per cent beyond the cost forecast by the current Corporate Plan.

Unit costs for parts of the network are twice as much as forecast, while NBN Co is burdened by what the Review frankly admits are excessive corporate overheads ramped up in anticipation of a level of construction and customer activity that never materialised.

The revenue assumptions made under Labor are also extremely optimistic, and entirely at odds with industry experience here or abroad. NBN Co and its advisers found revenues

between now and 2021 have been overstated by \$13 billion compared to the midpoint of two more realistic revenue scenarios presented – one plausibly optimistic, and one plausibly pessimistic.

Retail Prices

The exact impact of Labor's NBN on the price Australians pay for broadband depends on investment returns and retail service provider margins. But if NBN Co's goal is to earn the 7.1 per cent return promised by the previous Government, and RSP margins remain unchanged in dollar terms, Labor's NBN will drive up retail prices by between 50 and 80 per cent.

That means a \$43 per month increase in the broadband bill paid by a typical Australian household.

As I've noted previously, the most shocking aspect of the NBN is Labor's arrogant disregard for the devastating effect of price rises driven by their policy on the take-up of broadband among low income households.

Those opposite may not care, but the Strategic Review confirms the gravity of this problem.

To summarise, Madame Speaker, the cold hard facts about Labor's NBN are profoundly at odds with the fanciful tales and wishful thinking of those opposite.

And it is important to note that achieving even these projections of higher costs and slower construction schedules requires a very significant improvement in NBN Co's productivity and efficiency from current levels. In the absence of such an improvement, outcomes will be materially worse.

3. Alternative Options for the NBN

The second broad set of questions the Finance Minister and I assigned the Strategic Review involved exploring alternatives to the existing NBN, which as we've seen will cost billions more and take years longer to complete than was ever admitted to the public.

The Strategic Review's baseline scenario is its revised outlook for the NBN proposed by Labor. Beyond this it considers five additional scenarios:

- The second is a radical redesign of the all-fibre to the premises NBN. This cuts one year and \$9 billion off the baseline, but at \$64 billion it's no bargain.
- The Review examines three intermediate scenarios, which make increasing use of existing network infrastructure to cut costs to more reasonable levels.

- The sixth and final scenario is an NBN utilising a multi-technology mix, or MTM, model. This optimises the rollout by choosing the most economically efficient technology in each locality according to its housing stock, existing infrastructure and user demand.

The scenario recommended by NBN Co's leadership is the last: the MTM model. But none of the scenarios can escape the irresponsible and wasteful current and future expenses locked in on Labor's watch. The NBN Co Strategic Review team estimates the burden of these inescapable costs at \$15 billion or more.

The MTM Rollout

Under an MTM model 26 per cent of premises in the fixed line footprint will receive very fast broadband over fibre to the premises. Another 44 per cent are served with fibre to the node, building or distribution point, while the last 30 per cent are served via upgraded HFC – the cable rolled out for pay TV in our capital cities in the late 1990s.

HFC networks are capable of delivering hundreds of megabits per second today, just like fibre, but under Labor's plan Telstra and Optus were to be paid billions to switch them off.

The MTM scenario is the least expensive modelled scenario, requiring funding of \$41 billion.

This will still be the biggest and most expensive infrastructure project in our history and the largest single national broadband project in the world. Regrettably it will be many billions of dollars more expensive than it would have been had the MTM approach been taken from the outset. Labor has wasted billions which we can never recover.

An MTM network can be substantially completed by 2019 – when 91 per cent of premises in the fixed line footprint will have access to download rates of 50 megabits per second or more, and between 65 and 75 per cent will have 100 megabits per second or more – and entirely finished by 2020.

Coalition Election Commitments

This means the Coalition's goal of completing the NBN in the next six years – set out in our April policy, released long before we knew the truth about the damaged project we would inherit from Labor – can be achieved.

Disappointingly that's not the case for the objective we also expressed of delivering nationwide access to 25 megabits per second by 2016.

- The rollout is drastically further behind schedule than we expected in April. NBN Co's latest estimate of the established premises it will reach with fibre by June 2014 is only 357,000 – 772,000 fewer than claimed by Labor at the time of the election.

- And NBN Co is in a far worse condition, its contractor relationships more damaged, and its capacity to change course and assimilate new technologies more debilitated and diminished than even we allowed for..

A policy based on the Strategic Review's MTM scenario can, however, deliver very fast broadband to twice as many premises by 2016 as were ever going to receive it under Labor.

And Madame Speaker, let me make this pledge on behalf of the Government: we will work assiduously with NBN Co to do everything we can to surpass the forecasts in the Strategic Review. Likewise, we remain determined to ensure our NBN connects those Australians with the worst broadband in priority, unlike the NBN managed by our predecessors.

Broadband Quality

Upgrading from download rates of 5 megabits per second to 25 or 50 megabits per second would be welcomed by any internet user, but for those with limited or no access to adequate fixed broadband at all, it is transformational.

Shortly we will publish the first ever analysis of broadband availability in Australia. It will confirm areas encompassing about 1.5 million premises have little or no broadband. Many are in regional areas. All are victims of the lack of investment in fixed line communications by private carriers over the past six years, which is yet another damaging by-product of the gap between Labor's rhetoric and execution on broadband.

Return on Investment

The Review's preferred scenario saves \$32 billion compared to business as usual under Labor. While that's the sort of number the Rudd and Gillard Governments tossed around with abandon, it's a saving that makes a difference. It allows the network to earn a return roughly equal to the Commonwealth bond rate and ensures prices don't rise in real terms.

This Strategic Review points the way to a new corporate plan, but it is not yet the new corporate plan. More work is required to set the NBN on a responsible and affordable course.

An important step in the reform of the NBN, announced today, is the appointment of a new CEO, Mr Bill Morrow, currently the chief executive of Vodafone Australia. Mr Morrow is a very experienced telecom engineer and chief executive who has managed and indeed constructed telecom networks in America, Asia and Europe.

4. Cost Benefit Analysis and Review of Regulation

Part of the work is a cost-benefit analysis of the economic and social returns from broadband and a review of the long-term regulation of NBN Co which will also inform the new Corporate Plan.

The Government is today announcing an experienced and distinguished panel to carry out that inquiry, which will report by June: it will be chaired by Dr Michael Vertigan AC, who will be joined by Ms Alison Deans, Dr Henry Ergas and Mr Tony Shaw.

5. Conclusion

Madame Speaker,

I congratulate and thank the team at NBN Co and its advisers who prepared the Strategic Review, which is the most thorough and objective analysis of the National Broadband Network ever provided to Australians - a highly professional piece of work prepared in a very tight timeframe.

The internal NBN Co team was led by its Head of Strategy and Transformation, JB. Rousselot, and ably supported by Tim Ebbeck and many others. The company's outside advisers were the Boston Consulting Group, Korda Mentha, and Deloitte. Valuable insights came from international experts including Mike Galvin from Openreach and Mark Ratcliffe from Chorus.

Finally, I want to thank the NBN Board and most of all its Executive Chairman, Dr Ziggy Switkowski.

Despite the delays and disappointments, the concept of a National Broadband Network remains popular. Australians want universal access to high quality broadband and so does the Government because of the misguided way the previous Government embarked on this project, as much as \$15 billion has been unnecessarily spent to achieve this goal. And those dollars cannot be recovered.

To date the NBN has been the most wasteful infrastructure project in our history.

But we are where we are. And let me assure the House that under this Government, we can complete this project as we promised – sooner, at less cost to taxpayers and more affordably for consumers. Our first step in that mission is to end the spin and the wishful thinking, and embrace reality.

I table the Strategic Review of the National Broadband Network and commend it to the House. It will be available from today on the website of the NBN Co.