Independent assessment of NBN Corporate Plan

Dear Mr Hehir

We write to request an assurance review of the financial assumptions underpinning the long-term economics of the NBN.

The NBN Corporate Plan contains various plans, projections and other forward-looking estimates which, among other things, help the Australian people, Parliament, Government, markets and stakeholders assess the state of the business case and, by extension, the potential exposure of the Federal Budget and impact on consumers.

As you would be aware, in 2013 the Coalition promised to deliver the NBN for $29.5 billion and by the end of 2016.

The most recent 2018 Corporate Plan indicates the Government expects to provide between $47 and $49 billion in equity and debt funding to complete the rollout of its multi-technology mix by July 2020. This is a cost increase of $8 billion from the November 2014 Corporate Plan and $20 billion more than was promised in 2013.

Given the scale of public investment, it is important that the Parliament and public have confidence that the medium and long-term assumptions in the Government’s Corporate Plan have been subject to independent scrutiny, particularly given the 2018 NBN Corporate Plan explicitly states in a footnoted disclaimer:

"Management and the Board do not give any guarantee or assurance that the results, performance or achievements expressed or implied by the outlook will actually occur. Management and the Board have not taken a view on assumptions beyond FY22."

On 25 July 2018 Standard & Poor’s issued a critical assessment of the long-term economics of the NBN, and questioned the appropriateness of the long-term Corporate Plan assumptions, specifically revenue and take-up.

S&P’s assessment highlights the potential and significant risk to taxpayers as a consequence of a potential write-down, an outcome that regrettably looks increasingly likely.

There has been a mix of commentary over the past year about the competitive risks posed by wireless networks to the multi-technology mix NBN.
For example, the CEO of Telstra recently indicated the company estimates that with the evolution of 5G more than one million more homes and businesses in Australia could choose to go mobile only than are now.

The NBN Company also recently took steps to increase entry-level wholesale pricing by forcing the same wholesale price for 12, 25 and 50 mbps speed tiers.

These pricing changes risk undermining affordability for low-income Australians on the NBN, but may also increase the competitive exposure of NBN to 5G offerings from operators who will compete aggressively on entry-level pricing. These competitive risks are likely to materialise by late 2019, which would fall into the next term of Parliament.

Whilst we are not passing judgement on this commentary, the diversity of views does highlight the importance of having independent assurance that the assumptions underpinning the long-term economics of the NBN are fit for purpose.

This is pertinent, given the potential impact assumptions adopted by NBNCo have on the Internal Rate of Return (IRR), and its potential interaction with the value of equity held by the Commonwealth in the NBN.

We consider an urgent review of the long-term assumptions underpinning the latest Corporate Plan by the ANAO is the best mechanism to provide robust independent scrutiny of these matters to the Parliament. This was also a key recommendation of the NBN Joint Parliamentary Standing Committee, which handed down its report on 29 September 2017.

For this reason, we request the ANAO undertake an assurance review that could consider, but not be limited to, the following matters:

a) Whether the internal NBN processes for reviewing and updating assumptions that impact the long-term economics of the NBN Corporate Plan are appropriate.

b) Whether the key financial assumptions underpinning the long-term forecasts in the latest Corporate Plan reflect the best information available, including the internal market insights, risk assessments, and analysis available to NBNCo and informed market analysts. This includes:
   o projected revenue growth forecasts out to 2040;
   o implicit and explicit assumptions about NBN take-up rates out to 2040 in light of expected competition from wireless operators;
   o operating cost assumptions out to 2040; and
   o a comparison of how key assumptions impacting the long-term financial forecasts have changed from the 2016 Corporate Plan and onwards, and the reasons for the changes.

c) The sensitivity of the long-term economics of the NBN to variations in these assumptions.

Thank you for your consideration of this request and we look forward to your response.

Yours sincerely,

[Signature]

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