Management of the Australian Broadband Guarantee Program

Department of Broadband, Communications and the Digital Economy

Canberra ACT
15 February 2011

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Broadband, Communications and the Digital Economy in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to *Senate Standing Order 166* relating to the presentation of documents when the Senate is not sitting, I present the report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Management of the Australian Broadband Guarantee Program.*

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone: **(02) 6203 7505**
Fax: **(02) 6203 7519**
Email: **webmaster@anao.gov.au**

ANAO audit reports and information about the ANAO are available at our internet address:

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Audit Team
David Spedding
Ruth Cully
Darren Molineux
Barbara Cass

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Abbreviations

ABG	Australian Broadband Guarantee
ABS	Australian Bureau of Statistics
ADSL	Asymmetric Digital Subscriber Line
ANAO	Australian National Audit Office
ATSICC	Aboriginal or Torres Strait Islander Community Council
BC	Broadband Connect
BCOMS	Broadband Customer Online Management System
BSL	Broadband Service Locator
CIU	Cabinet Implementation Unit
CRG	Complaints Resolution Group
DBCDE	Department of Broadband, Communications and the Digital Economy
DSL	Digital Subscriber Line
GB	gigabyte
G-NAF	Geocoded National Address File
GST	Goods and Services Tax
HiBIS	Higher Bandwidth Incentive Scheme
ISP	Internet Service Provider
kbps	kilobits per second
KIMS	Known Individuals Management System
KPIs	key performance indicators
NBN	National Broadband Network
MB	megabyte

Minister	Minister for Broadband, Communications and the Digital Economy
PBS	Portfolio Budget Statement
PRC	Performance Reporting Committee
RTI	Regional Telecommunications Inquiry
TAU	Technical Assessment Unit
TIO	Telecommunications Industry Ombudsman

Glossary

added value services
Broadband services registered under the ABG program that exceed the minimum functionality requirements for threshold services

customer premises equipment
Hardware associated with the installation of broadband services at a customer's premises

department
Department of Broadband, Communications and the Digital Economy

entry level services
Broadband services registered under the ABG program that provide a peak data download/upload speed of at least 256/64 kilobits per second and 500 megabytes per month data allowance at a price that is appropriately discounted to the threshold service price cap

metro-comparable
Access to the internet at a peak data download/upload speed of at least 512/128 kilobits per second and one gigabyte per month data allowance (three gigabytes per month from August 2008) at a price to the customer of no more than $2500 (including GST) over three years

providers
Generally refers to internet service providers that have registered with DBCDE to provide ABG services

terrestrial broadband services
Broadband services provided by all technologies except satellite

threshold services
Broadband services registered under the ABG program that provide a peak data download/upload speed of at least 512/128 kilobits per second (1024/256 from 1 July 2010) and three gigabytes per month data allowance (six gigabytes from 1 July 2010) at a price to the customer of no more than $2500 (including GST) over three years

Summary and Recommendations

Summary

Introduction

1.   The Australian Government is seeking to achieve maximum participation of Australian households and businesses in the digital economy.[1] The adoption of broadband in Australia has not been as widespread and has not offered the level of quality and speed available in other developed markets, while being simultaneously subject to high prices and data caps.[2] The high price of broadband compared to most other Organisation for Economic Cooperation and Development economies has also hampered Australia's performance as a successful digital economy.[3] Over the past four years, with the roll-out of new technology, there has been a marked improvement in commercial broadband services. However, non-metropolitan take-up of broadband was 53 per cent in June 2009 (the latest available data) and has consistently lagged metropolitan areas by up to 15 percentage points.[4]

2.   In 2002, the Regional Telecommunications Inquiry (RTI) identified that a major impediment to regional, rural and remote Australia having equitable access to higher bandwidth services was the higher prices that users pay.[5] In response to the RTI, the then Government established the Higher Bandwidth Incentive Scheme (HiBIS) in April 2004. This was replaced by the Broadband Connect (BC) program which was, in turn, replaced by the Australian Broadband Guarantee (ABG) program in April 2007 (see Figure S1).[6] The ABG program is administered by the Department of Broadband, Communications and the Digital Economy (DBCDE).

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[1]   Department of Broadband, Communications and the Digital Economy, 2009, *Australia's Digital Economy: Future Directions Final Report*, pp.i-1. The benefits of increasing the engagement of both businesses and consumers in the digital economy include: realising productivity gains; achieving more efficient and sustainable use of natural, physical and human resources; more effective health and education outcomes; and enhanced social inclusion.

[2]   Parliamentary Library Briefing Book: *Key Issues for the 43rd Parliament, Population and Infrastructure*, September 2010, p.44.

[3]   Australia's Digital Economy, op cit, p.9.

[4]   Australian Bureau of Statistics, *Internet Activity Survey*, Australia, Publication No.8153.0.

[5]   Regional Telecommunications Inquiry 2002, *Connecting Regional Australia: The Report of the Regional Telecommunications Inquiry*, p.xxiii., Finding 6.4.

[6]   A performance audit of the management of the HiBIS and BC Stage 1 programs was completed in May 2007. See ANAO Audit Report No.36, 2006–07 *Management of the Higher Bandwidth Incentive Scheme and Broadband Connect Stage 1.*

Figure S1

Timeline of ABG and predecessor programs
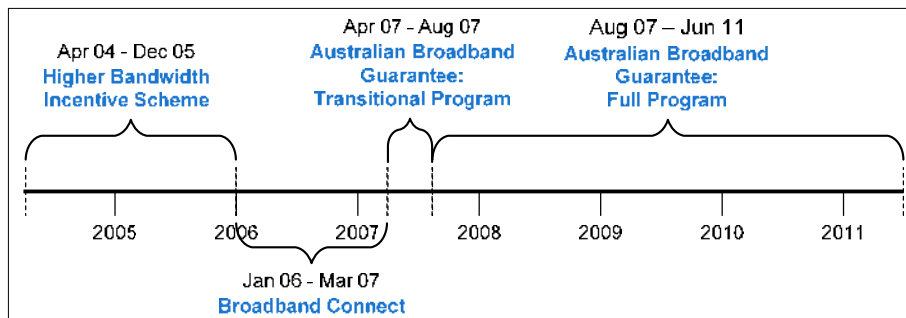
3.   The primary objective of the HiBIS and BC programs was to achieve prices for higher bandwidth services in regional Australia that were comparable to metropolitan services.[7] The objective for the ABG program has been revised a number of times and, from August 2008 to June 2010, was to provide all Australian residential and small business premises with access to metro-comparable broadband services. From July 2010, the objective is to provide Australian residential and small business premises with access to high quality, reasonably priced broadband services in locations where such services are not commercially available.

4.   Eligible premises are restricted to those areas that are unable to access a metro-comparable broadband service as defined in the program guidelines. A metro-comparable broadband service is defined as one that provides data download/upload speeds of at least 512/128 kilobits per second and a data allowance of three gigabytes per month, at a total cost to the customer of no more than $2500 (including GST) over three years (equivalent to a maximum of $69.44 per month). The program guidelines are approved by the Minister for Broadband, Communications and the Digital Economy (the Minister).

5.   Under the ABG program, a one-off incentive payment (subsidy)[8] is offered to registered internet service providers to connect and supply

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7   There were also two supporting objectives: to promote competition among higher bandwidth service providers; and to ensure efficient use of public funds by effectively targeting support to areas of need in regional Australia.

8   The program has five payment levels associated with the different technology platforms and installation circumstances. Almost all payments made under the program were for $2750 (including Goods and Services Tax), with most being for satellite services. Payments of up to $6600 can be made for difficult and costly installations, such as in cyclone prone areas.

Summary

broadband services to eligible household and small business premises in regional, rural and remote areas of Australia.[9] Providers are required to offer at least one 'threshold' service and one 'added value' service. They may also offer cheaper, lower capacity 'entry level' services and additional added value services.[10] Typically, providers register several plans under each of the entry level and added value categories.

6. The department approves all service plans (including pricing structures) as part of the process of registering providers.[11] Eligible customers can choose to connect to any entry level, threshold or added value service plan registered by their provider under the program. From the beginning of the program to 30 June 2010, the ABG threshold service met the requirements of a metro-comparable broadband service.

7. Over 925 000 premises were eligible to receive ABG broadband services at the start of the program. Claims totalling some $258 million have been paid to 34 providers for connecting over 103 000 ABG customers from the start of the program on 2 April 2007 to 30 June 2010. Almost 95 per cent of the subsidies paid under the program were for satellite broadband connections. During 2009–10 there were 18 registered providers (including two inactive providers).

2010–11 ABG program

8. As previously stated, the objective of the ABG program in 2010–11 is to provide Australian residential and small business premises with access to high quality, reasonably priced broadband services in locations where such services are not commercially available. These locations continue to be in rural and remote areas where commercial infrastructure has not been deployed. The program also aims to provide a measured and seamless transition to the high speed broadband services that will be made available under the National

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[9] Providers are required to offer to provide the ABG service to the customer for three years.

[10] From April 2007 to June 2010: threshold services provided peak data download/upload speeds of at least 512/128 kilobits per second and a data allowance of three gigabytes per month; entry level services provided a peak speed of at least 256/64 kilobits per second and 500 megabytes per month data allowance; and added value services had to exceed the minimum functionality requirements for threshold services.

[11] Providers may apply at any time to vary their plans and these must be approved by the department.

Broadband Network (NBN), by providing access to subsidised program services while the NBN is being rolled out.[12]

9. The incentive payments offered to providers and the metro-comparable eligibility criteria defined in the program guidelines have not changed under the 2010–11 program. While the standards for entry level services have not been revised, the minimum requirements for a threshold service have effectively doubled, with speeds now one megabit per second download and 256 kilobits per second upload and the monthly data allowance six gigabytes (with at least three gigabytes at peak times). Added value services must continue to exceed the requirements of a threshold service. The department advised that the ABG program will terminate at the end of 2010–11.

Audit objectives and scope

10. The objective of the audit was to assess if DBCDE had effectively managed the ABG program, and the extent to which the program was achieving its stated objectives. The audit examined DBCDE's activities supporting the planning, implementation, monitoring and performance reporting for the ABG program from its commencement in April 2007 to June 2010.

Overall conclusion

11. The ABG program operates in an environment where broadband technologies have significantly improved and commercial broadband infrastructure has been expanding. The progressive implementation of the Australian Government's NBN has also commenced and will continue over the next several years. The ABG program is seen as complementing the roll out of these services.

12. The ABG is a mature program that has built on the experience gained through its predecessor broadband subsidy programs HiBIS and BC. These programs were designed to provide equitable access to broadband services in target areas, in terms of price and functionality. Underpinning the objective of these programs is the concept of the metro-comparable service standard, which

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[12] The NBN is intended to provide speeds of 100 megabits per second to 93 per cent of Australian premises. Next generation wireless and satellite technologies are expected to be used to cover the remaining seven per cent. However, these next generation services are not expected to become available until at least 2014.

is the eligibility benchmark for the program. Incentive payments are offered to registered internet service providers to connect and supply broadband services to eligible premises.

13. The ABG program has provided subsidised access to broadband services for more than 103 000 residences and small businesses in regional, rural and remote areas of Australia pending the roll out of major infrastructure initiatives, including the NBN. The number of underserved premises in Australia has fallen from over 925 000 at the start of the program to 160 000 in July 2010. In part, this reduction can be attributed to the ABG program, but has primarily resulted from the roll out of commercial broadband services into previously underserved areas. Some 70 per cent of the premises that received an ABG connection between 2 April 2007 and 30 June 2010 were in areas where a commercial broadband service had become available by 1 July 2010.

14. The policy settings for the ABG program are matters for the Australian Government to determine, based on advice from its department and any other sources. In this context, there has been a six-fold increase in the minimum data allowance[13] for the ABG threshold service over the life of the program, but little improvement in the minimum download speed. Since 1 July 2010, the monthly data allowance for the threshold service is now more closely aligned with the Australian average data downloaded per month. However, the entry level service, which accounts for about 77 per cent of ABG connections, has not changed over the three years of the program. The ABG base subsidy rate of $2750 set at the start of the program and which has been paid for about 95 per cent of ABG connections has also not changed. On average, prices paid by ABG customers, while lower than would have been paid without the subsidy, have exceeded the prices paid for equivalent broadband services (in terms of speed and data allowances) in metropolitan areas.

15. Following the Regional Telecommunications Independent Review in September 2008, the Government agreed to monitor the broadband services offered under the program so that they continued to provide a metro-comparable option for regional Australians. The department advised that its metro-comparable ABG threshold service is determined on the basis of a comparison with metropolitan broadband services most commonly taken up, and other relevant factors, including the program budget and commercial

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[13]   Including the recent doubling of the data allowance from 1 July 2010.

service developments (such as Telstra Next G). Nevertheless, for the reviews of the service levels and subsidies completed in 2008, 2009 and 2010, there was a lack of documentation to support the department's recommendations to the Minister, and the underlying rationale for changing (or retaining) program elements was not readily apparent.

16.   To administer the program and its interface with customers and providers, the department has established an effective management framework. There are generally sound processes for registering providers, assessing customer and claim eligibility, and maintaining compliance with program requirements. The department also has adequate governance arrangements in place to support the program, which have improved as the program has evolved. Risk assessments are now more strategically focused and the department's record keeping practices supporting management reporting have been enhanced. However, the audit identified a number of shortcomings in the department's technical testing regime of the ongoing quality of broadband services delivered by providers, the conduct of telephone audits of ABG customers, and site audits of ABG providers. The department has taken steps to address these matters.

17.   The department has not reported against the program's key performance indicators and performance targets outlined in its Portfolio Budget Statements, whether program objectives have been achieved and what outcomes can be attributed to the program's intervention. Performance reporting has largely been activity-based and does not include key program elements, their results and impacts, or trends over time. This type of information would give greater transparency to the operation of the program, better inform management and policy decision-making, and provide context about the environment in which the program is operating.

18.   The ANAO has made one recommendation aimed at improving performance measurement and the transparency of reporting for the ABG program (and any future broadband programs).

Key findings

Program governance arrangements (Chapter 2)

19.   The department has established sound governance arrangements to support the ABG program. Over time, generally adequate business planning, risk management, internal reporting and demand forecasting processes have been implemented and improved. However, the usefulness of some of these

measures was reduced by a number of factors, such as: the delayed implementation of a demand forecasting model; the timeliness of management reports; and until recently, the currency and quality of the program's risk register.

20.   At times, there have been inconsistencies or anomalies in the program metrics reported in internal management reports—an issue compounded by the practice of not keeping records of how the data reported was derived. Similarly, by not keeping copies of the outputs of the demand forecasting model, the department has impaired its ability to effectively review and adapt the model. The department has now implemented procedures to retain appropriate records.

Provider registration (Chapter 3)

21.   The department has implemented structured and transparent processes for the assessment and registration of providers in the ABG program. The program guidelines contain comprehensive information about the program, including the application, assessment and registration process. The guidelines have been regularly reviewed, approved by the Minister, and made publicly available on the department's website. The ABG operations manual details the procedures for provider assessment and registration, including benchmark timeframes. The department also consults with expert advisors to assess applicants' financial and technical capacity prior to registration.

22.   The ANAO examined the registration process for eight of the 18 ABG providers. All providers in this sample had a deed in place signed by the delegate that set out the terms and conditions for providing their services under the ABG program. With the exception of three instances,[14] applications for registration, or requests for variation to the deed, were duly processed, approved by the chair of the assessment panel, and executed.

23.   During the audit, the ANAO raised concerns that the department's practices resulted in providers being advised that their applications had been either accepted or rejected before submitting any details to the delegate for decision. After taking legal advice on this matter, DBCDE advised that it

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[14]   In these instances, there was either: no submission for approval of a variation; the submission for approval of a funding deed was not approved by the chair of the assessment panel as further information was required; and although the submission for approval of an extension to a funding deed was signed, it was not notated as being agreed to by the chair of the assessment panel.

would, in future, ensure that funding deeds are not forwarded to providers for execution until after the delegate has approved the allocation of funds for the Commonwealth to enter into a financial arrangement.

Assessing customer and claim eligibility (Chapter 4)

24.   Under the ABG program guidelines, a person is only eligible for a subsidised broadband service if he/she is an eligible customer type; their premises is an eligible premises type; and their premises does not have access to a metro-comparable broadband service (as defined by the program guidelines).

25.   A registered provider is entitled to receive an incentive payment for connecting and supplying an ABG service to a customer, located within their registered service area, who has been determined as eligible by the department. DBCDE assesses eligibility at two stages: when a customer registers for the ABG program (pre-claim); and when the provider claims an incentive payment (post-claim). The ANAO examined the processes the department has implemented for pre- and post-claims.

Pre-claim assessment of customer eligibility

26.   Potential customers seeking an ABG service, must register with DBCDE using a web-based tool known as the Broadband Service Locator (BSL), which is hosted on the department's website.[15] Based on the premises address information provided by the customer, the BSL assesses if a customer is eligible for a subsidised service. The ANAO selected a random sample of 61 customers[16], registered during the calendar year 2009, to assess if the premises location had been correctly plotted. The locations plotted for customer premises by the BSL were compared with those plotted for the same address information on a third-party mapping application.

27.   In most cases (74 per cent), the BSL plotted a premises location that correlated with the premises visible in the satellite image from the third-party mapping software. In 21 per cent of cases, both mapping platforms were only able to provide approximations of premises location, reflecting the regional

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[15]   Potential customers unable to access the internet can call the department's ABG helpline or have a registered service provider fill in the BSL registration on their behalf. Following registration, a customer declaration form is sent to the customer that must be given to the provider if a customer proceeds to connect to a subsidised broadband service.

[16]   The sample was designed to provide a confidence level of 95 per cent (± 2.5 per cent).

and remote nature of these locations. For the remaining five per cent of cases, neither mapping platform was able to provide a reasonable location match.[17] Overall, the BSL accurately and reliably plotted the location of customer premises where adequate information was supplied.

28. The ANAO also identified that some customers who should have had access to a commercial service had been incorrectly classified as being eligible for a satellite service. Over a six-month period (August 2008 to February 2009), the department had inadvertently omitted 211 ADSL-enabled exchanges from the BSL.[18] Customers in these areas who registered during this period were directed by the BSL to a subsidised service, rather than to available commercial services. The department determined that 351 customers received a subsidised connection at a total cost of more than $875 000; and an additional 245 customers held unlodged declaration forms on 30 April 2010 referring them to a subsidised service, representing potential claims totalling over $540 000.

29. The department amended the BSL registration status of the 245 customers that had not lodged declaration forms. These customers were required to re-register on the BSL if they wanted to claim a service, at which time they would be provided with updated information about the services they may access. In June 2010, the department also wrote to the 351 customers that had received a subsidised connection, informing them that a wider range of commercial broadband services, including ADSL, may be available than was previously indicated when they registered on the BSL.[19] The department also decided not to pursue recovery action in respect of the payments made to providers arising from this error.

Post-claim assessment of customer and claim eligibility

30. The BSL enables customers to move their premises 'pin' during the registration process to allow for and correct possible mapping inaccuracies. However, this facility also creates a risk of illegitimate pin movements in order

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[17] Of these cases, only one customer proceeded to connect an ABG service, after moving the locator 'pin' on the map shown on the BSL to the customer's correct location.

[18] The issue was rectified when the ADSL mapping layer was replaced with an updated, complete set of data.

[19] Customers were advised that they did not need to do anything if they were satisfied with their current broadband service, but were also advised about their options and the steps to take if they wished to explore the availability of commercial services or change to a new broadband provider.

to become eligible for a subsidised service. In July 2009, the department developed an automated method of extracting pin movement data from the BSL and viewing both the original geocoded location and subsequent pin movement on a third-party mapping application. Departmental staff could then examine the two locations and form an opinion as to whether the pin movement was legitimate or potentially invalid.

Potentially invalid pin movements

31. In August 2009, the department initiated a series of audits of potentially invalid pin movements made since the commencement of the program. These audits identified claims worth over $1.1 million, that appeared to be invalid as a result of illegitimate pin movements. The claims had been lodged predominantly by two providers. A small number of similar claims were also lodged by five other providers. In September 2009, the matter was referred to the Australian Federal Police in accordance with the department's fraud control procedures.

32. Subsequently, $864 000 was recovered from providers for over 400 paid claims that were deemed ineligible. As well, DBCDE declined to pay more than 100 other claims lodged by two providers totalling approximately $262 000.

Monitoring and compliance (Chapter 5)

33. The ABG compliance framework aims to ensure that payments to registered providers are accurate, accountable and justified. The ANAO reviewed the compliance activities undertaken by or on behalf of the department.

Telephone audits

34. Telephone audits commenced in April 2008 and the process was subsequently refined in September 2009. Although the primary reason for introducing the audits was to address concerns that claims were lodged by providers prior to a service being connected for the customer, the telephone audits did not seek to obtain details of the actual date of connection.[20]

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[20] The date that the customer requested the service was also not verified. This information would have enabled DBCDE to verify that the customer was connected within the required 30 days, or that an extension had been approved by DCBDE prior to claim lodgement date if the connection took more than 30 days. It would also enable the department to verify that the provider's claim for payment was lodged within the required 45 days of connecting the customer to the broadband service.

The procedures also required that up to 15 customers for each provider be contacted each month. However, the number of telephone audits conducted fell well short of the number intended.[21] In addition, the results of the telephone audits were not consistently collated and regularly reported.

35.   Where spreadsheets recording details of the telephone audits were available, many of the audits indicated that the customer was not able to be contacted (even after three or more attempts).[22] However, it was not apparent that any follow-up action had been taken to verify the existence of the customer and that they had received the subsidised broadband service. About one-fifth of the telephone audits undertaken in late 2009 and early 2010 had also not been recorded in the relevant database.[23]

36.   During the audit, DBCDE revised its framework for conducting telephone audits of ABG customers. The changes were designed to improve rates of contact with customers, compliance outcomes, and the recording and reporting of outcomes, including by telephoning customers during non-business hours.

Contracted testing of broadband services

37.   Ensuring that customers continue to receive quality broadband services after providers receive the incentive payment is an important part of compliance monitoring under the ABG program. The program guidelines require that ABG services must meet minimum data speed and network availability standards for a period of three years from the date of connection. The department monitors the quality of these services through an outsourced testing regime and publishes summary results on the ABG website.

38.   The contractual arrangements with the testing contractor regarding the coverage and methodology of the data speed testing regime are not prescriptive. The agreed work is variously described as testing of 'the full range of the Program's Services', or measurement of data speeds on a 'diverse range of broadband technology platforms (wireline, wireless and satellite) for

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[21]   Although the procedures specified that 130 customers per month would be surveyed (a total of about 3000 for the period up to March 2010) the available records indicated that only a few hundred surveys were undertaken (representing less than 0.25 per cent of claims paid under the program).

[22]   For example, 80 per cent of one provider's customers could not be contacted in October 2009 after several attempts.

[23]   The department's procedures require that all contact with customers be recorded in the Known Individuals Management System (KIMS) database.

ABG eligible broadband services'. The department advised that the testing carried out meant that one of each provider's popular plans for any of their registered platforms is tested each month. However, DBCDE had not conducted any analysis to identify popular plans for the purposes of determining the appropriate services to be tested. In practice, the department did not instruct the testing consultant regarding the specific service(s) to be tested, rather the consultant contacted the provider to set up a test service of a registered service plan nominated by the provider.[24]

39.   The ANAO analysed monthly data speed test reports, the results summaries posted on the ABG website and information extracted from the department's Broadband Customer Online Management System (BCOMS)[25] relating to customer uptake of registered services. The analysis sought to confirm that appropriate testing was carried out, follow-up actions were taken where necessary and the testing was accurately reported to the department and the public (though the website).

40.   The analysis revealed that most providers passed the data speed testing requirements most of the time.[26] Although there were prolonged periods of consecutive failed tests (up to nine months for one provider), these were typically associated with issues with providing the test service, rather than providing services to customers. In all cases where a provider had failed one or more tests, the provider passed a subsequent test, indicating that remedial action had been taken.[27] However, the ANAO also identified a number of inconsistencies and errors, including:

- six instances where the service delivery platform reported as tested was not the platform actually tested (the duration of these errors ranged from one month to two and a half years); and

- an additional seven instances where a registered provider was not being tested for a service delivery platform that it provided.

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[24]   The test service required a dedicated computer be set up in the provider's premises that was remotely accessed by the testing contractor.

[25]   BCOMS records all details of service providers and claimed customers, along with information about declined and queried claims.

[26]   Up to April 2010, approximately 89 per cent of tests were awarded a PASS. One–half of the FAIL results were for unsatisfactory performance. In the remaining cases, the test service was offline and could not be tested.

[27]   The only action taken by the department for failed data speed tests was to remind providers of their obligations under their funding deeds.

41. The department accepted that insufficient monitoring of data speed testing was the primary cause of errors in the testing of the quality of services and reporting on its website, which it was moving to rectify promptly. The department has ceased the practice of allowing providers to nominate their most popular service for testing and, for the 2010–11 program, requires that each provider's registered threshold service on each registered platform be tested. The testing contractor has been advised of the providers, platforms and service plan speeds to be tested.

Compliance audit activities

42. DCBDE conducts a range of in-house compliance audit activities, in addition to on-site audits of providers performed by a contracted auditing firm. Programmed audits are supplemented by ad hoc reviews and special investigations, as necessary, in response to specific concerns of provider non-compliance with program requirements.

43. The 2007–08 provider audit program was approved late in the year (in May 2008) and listed five audits. The explanation for not conducting the audits earlier in the year was that there had been a 'greater focus on addressing outstanding compliance issues, primarily related to the end of Broadband Connect.' There was no audit program for 2008–09 and no audits were conducted during that year. All except two of the 2009–10 scheduled audits and compliance activities were completed during that year. The department advised that these audits were replaced by compliance activities related to pin movements. Report finalisation timeframes had generally shortened compared with those for the 2008 audits (up to eight months).

Internal reporting on compliance

44. As part of the ABG compliance framework, DBCDE maintains provider compliance profiles, which are intended to provide a 'snapshot' of each provider for quick reference by ABG compliance staff. Although provider information is kept in various formats in a number of places[28], provider profiles have not been updated in a timely manner, which reduces their usefulness as a compliance monitoring mechanism. The department accepted that revising its profiles to provide an up-to-date summary of providers'

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[28] Including various databases, emails, spreadsheets, hardcopy files and the department's Information Management System.

operational and compliance history under the ABG program would be a useful compliance tool.

Review, measurement and reporting of the ABG program (Chapter 6)

Reviews of service levels and subsidy rates

45.   ABG service levels and subsidies are reviewed by the department as part of the process of revising the program guidelines. The department advised that the metro-comparable ABG threshold service is determined on the basis of a comparison with metropolitan broadband services most commonly taken up. Other relevant factors, including the program budget and commercial service developments (such as Telstra Next G) are also taken into consideration.

46.   For the reviews undertaken in May 2008, February 2009, August 2009 and February 2010, the department provided various discussion papers and spreadsheets that it used to assist in the preparation of the program guidelines in relation to commercial metro-comparable service levels. However, these documents did not include conclusions or recommendations drawn from any analysis of the market and ABG data, or comparisons with services commonly taken up. It was not clear if any other factors were considered and how these internal working documents informed the advice provided to the Minister in relation to proposals to change or retain existing program arrangements. The department was also unable to provide documentation to support its review of subsidy rates. The review process does not reflect an evidence-based approach to the provision of policy advice. There is also room for improvement in the analysis that underpins the ministerial advice for this program.

Measuring and reporting the performance of the program

47.   Measuring and accurately reporting program performance is important for good management and public accountability. A department's Portfolio Budget Statements (PBS) and annual reports should provide the Parliament with sufficient information about the actual performance of programs.

Key performance indicators and targets for the program

48.   A different set of key performance indicators (KPIs) has been used for each year of the program. In mid-2008, the department developed a new set of metrics based on the KPIs in the 2008–09 PBS. These were intended to apply for the life of the program (that is, to 30 June 2012) but were replaced with a

single KPI in the 2009–10 PBS. This KPI was replaced by two new KPIs in the 2010–11 PBS.

49. KPIs may evolve over the life of a program. They may be broadened or refined to better reflect the extent to which a program is achieving its objectives. However, to be useful, KPIs need to maintain at least a core consistency and continuity. When KPIs are continually changed, the program's performance over time is not easily assessed. The department acknowledged that frequent changes to the program's KPIs was not desirable.

50. Ideally, the performance information set out in the department's PBS would also have included targets for the program, which may be quantitative (numerical) or qualitative (descriptive), but must be verifiable. The KPIs in the PBS did not include any numerics for the quantitative targets identified for the ABG program until 2009–10, when the target number of ABG connections for that year was reported.

Reporting program performance

51. The department has not clearly reported against its performance targets on the broadband services offered, and taken up, under the program and how they compare with services offered in metropolitan areas. The minimum data allowance for ABG threshold services has been increased twice, bringing it into closer alignment with the Australian average data downloaded per month, but there has been little improvement in the minimum download speed. Added value services have also increased to remain above threshold services. The minimum standards for entry level services, which are taken up by three out of every four ABG customers, have not changed over the life of the program.

52. The department's 2008–09 annual report stated that, based on the Australian Bureau of Statistics (ABS) Internet Activity Survey for the December 2008 quarter, the speed and download standards for ABG services were broadly comparable to the most widely taken up broadband services across Australia. The ANAO's analysis of ABG, ABS and industry data for the three years of the program suggests that, in general, ABG services have not kept pace with the services available in metropolitan areas. On average, prices paid by ABG customers, while lower than would have been paid without the subsidy, have exceeded the prices paid for equivalent broadband services (in terms of speed and data allowances) in metropolitan areas. The ANAO recognises that the policy settings for the ABG program are matters for the Australian Government to determine, based on advice from its department and any other sources.

53.   The program performance information reported for the period 2007-08 to 2009–10 provided limited or no information on, amongst other things, the: number of underserved premises; type of services taken up; and quality and cost of services. There is little information on trends over time. This type of information would give transparency to the operation of the program, better inform management and policy decision-making, and provide context about the environment in which the program is operating.

54.   In addition, some aspects of the performance information reported could not be reconciled with information held by the department and ABS data. The 2008–09 performance report also does not sufficiently acknowledge the limitations of the survey data used to assess some aspects of the program's performance.

Summary of agency response

55.   The Australian Broadband Guarantee (ABG) is a demand driven yet budget capped program, with the objective of providing a service to Australians who cannot access via normal commercial sources reasonably-priced broadband at a standard comparable to metropolitan Australians.

56.   Each element of the statement above is important in the framing of the ABG service. Because broadband is a growing service generally supplied in Australia by commercial providers, the ABG program also needs to be conscious of the need not to provide a disincentive to continued expansion of provision of reasonably-priced broadband to Australians in rural and remote areas. Thus it is a complementary program, carefully targeting Government financial support to premises where adequate commercial broadband services are not available. As commercial services expand into more remote areas, the target areas for ABG support are and have been reduced. More recently, the ABG has also been conscious that the rollout of the National Broadband Network, including both satellite and wireless services in rural and remote Australia, has been Government policy. As such, ABG has always had a judgement element inherent in its standards, reflected in the judgement of the Government about when a metro-comparable service, which sets the benchmark for determining eligible premises under the ABG program, is available.

57. The Department considers that the first five chapters of the report represent a fair and constructive assessment of performance but believes that elements of Chapter 6 suffer to a degree from a misapprehension about the program, in relation to ANAO expectations of continuous improvement in the provision by the ABG of metro-comparable services.

ANAO comment

58. In its response to the report, the department has raised concerns about Chapter 6, particularly in relation to references to the policy parameters of the program and the data used by the ANAO to analyse the program's performance. Chapter 6 examines the periodic review of ABG services and subsidy payments as well as how the department measured and reported the performance of the program against the KPIs and performance targets set out in its PBS and annual report. Where performance information was not reported against these KPIs and performance targets, the ANAO analysed available ABG and ABS data to comment on the program's performance.

59. This report appropriately recognises, in paragraph 14, that the policy settings for the program are matters for the Australian Government to determine; accordingly, it makes no comment on the merits of the Government's policy position. Table 1.1 in the report sets out the minimum standards and the price cap for the metro-comparable ABG threshold service; and relationship to the pricing of entry level services and added value services. The report (paragraph 6.51) also presents as a statement of fact that, over the life of the program, the minimum standards for the ABG threshold service and added value services have been increased twice and the minimum standards for entry level services have not changed.

60. Further, in its detailed response (Appendix 1), the department makes a distinction between the average speed and data allowances of the broadband services published by the ABS in its Internet Activity Survey and the speed and data allowances of the broadband services most commonly taken up. However, the department was unable to provide its analysis identifying the broadband services 'most commonly taken up' even though it advised that this data was used when setting and reviewing subsidy rates and service levels (paragraph 6.4). In the absence of this departmental data, the ANAO analysed the ABS Internet Activity Survey data for those KPIs and performance targets which the department had not reported against (Figures 6.1, 6.2 and 6.3). The ABS Internet Activity Survey is based on subscribers who have accessed the internet or paid for access to the internet.

Recommendations

Recommendation No.1

Para 6.54

To improve the measurement of program performance and transparency of reporting of the Australian Broadband Guarantee program (and any future broadband programs), the ANAO recommends that the Department of Broadband, Communications and the Digital Economy:

(a)   develop key performance indicators, associated metrics and targets to enable program performance to be reliably measured over time; and

(b)   accurately report on results achieved by the program.

DBCDE Response: Agreed.

Audit Findings
and Conclusions

1. Background and Context

This chapter provides the background and context of the ABG program. The audit objective, scope and methodology are also outlined.

Introduction

1.1   The Australian Government has indicated that the digital economy is essential to Australia's productivity, global competitiveness and improved social wellbeing. The Government aims to achieve maximum participation of Australian households and businesses in the digital economy.[29]

1.2   The adoption of broadband in Australia has not been as widespread and has not offered the level of quality and speed available in other developed markets, while being simultaneously subject to high prices and data caps.[30] The high price of broadband compared to most other Organisation for Economic Cooperation and Development economies has also hampered Australia's performance as a successful digital economy.[31]

1.3   Broadband is a technology that allows users to access the internet at significantly higher speeds than those available through a dial-up connection. A broadband service has three key elements:

- data speed (the rate at which data is transmitted);

- data allowance (a limit on the amount of data than can be downloaded (and, for some plans, uploaded) per month); and

- cost to the customer (typically a monthly service cost, and any equipment or set-up costs).[32]

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[29]   DBCDE, *Australia's Digital Economy: Future Directions Final Report*. 2009, pp.i-1. The benefits of increasing the engagement of both businesses and consumers in the digital economy include: realising productivity gains; achieving more efficient and sustainable use of natural, physical and human resources; more effective health and education outcomes; and enhanced social inclusion.

[30]   Parliamentary Library Briefing Book: *Key Issues for the 43rd Parliament, Population and Infrastructure*, September 2010, p.44.

[31]   *Australia's Digital Economy*, op cit, p.9.

[32]   Another aspect of a broadband service is its network availability (usually expressed as a percentage of time the network is operational per month).

1.4 Currently, broadband speeds in Australia can range from 256 to over 24 000 kilobits per second (kbps).[33] Broadband services for households typically provide faster download speeds (from the internet to the computer) than upload speeds (from the computer to the internet). Over the past four years, with the roll-out of new technology, there has been marked improvement in the speed of commercial broadband services.[34] However, since 2004–05, ex-metropolitan take-up of broadband has consistently lagged metropolitan areas by some 11 to 15 percentage points, as shown in Figure 1.1.

Figure 1.1

Broadband take-up rate for metropolitan and ex-metropolitan areas
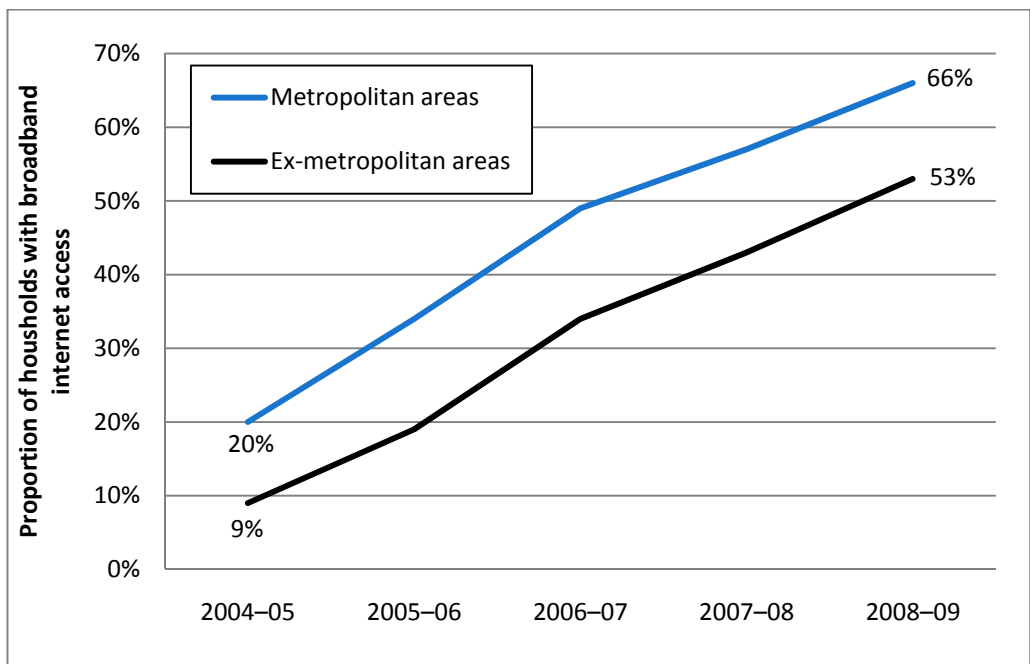
Note: The ABS ex-metropolitan areas include some inner regional areas that have access to commercial broadband services. These areas are excluded from the ABG definition of non-metropolitan areas.

Source: ANAO analysis of ABS Cat. 8146.0 Household Use of Information Technology, Australia, 2008-09.

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[33]   Australian Bureau of Statistics *Internet Activity Survey*, Australia, Publication No.8153.0. The National Broadband Network (NBN) is expected to provide speeds of up to 100 000 kbps.

[34]   ibid.

1.5 Most broadband connections in Australia use one of the following technology platforms (in descending order of typical broadband speeds achievable):

- cable and fibre (optic fibre/co-axial cable network to the premises);

- fixed telephone line (a DSL/ADSL[35] enabled telephone exchange with a copper telephone line connection to the premises);

- wireless (a tower transmits to either a wireless modem on the computer, or a fixed antenna and receiver at the premises); or

- satellite (a geostationary satellite that transmits to a satellite dish and receiver installed at the premises).

1.6 For many residents and small businesses in regional, rural and remote Australia, the only available broadband service may be via satellite, which is significantly more costly and slower than other broadband technology platforms. However, in these regions, broadband is particularly important in enabling people to overcome the social and economic isolation they may otherwise experience. It facilitates participation in the digital economy as well as offering education, training and employment opportunities for people in isolated areas, including remote indigenous communities.

1.7 The need for a broadband subsidy scheme was first identified by the Regional Telecommunications Inquiry in 2002. The inquiry found that a major impediment to regional, rural and remote Australia having equitable access to higher bandwidth services was the higher prices that users pay.[36] It recommended that the Government establish an incentive scheme to enable all Australians to have access to higher bandwidth services at prices comparable to those in metropolitan areas.[37] In response, the former Government established the Higher Bandwidth Incentive Scheme (HiBIS) in April 2004. This scheme was replaced by the Broadband Connect (BC) program in January 2006 which was, in turn, replaced by the Australian Broadband Guarantee (ABG) program in April 2007, as shown in Figure 1.2.

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[35] DSL is digital subscriber line and ADSL is asymmetric digital subscriber line. These technologies are used to convert a standard telephone exchange to a broadband enabled exchange.

[36] Regional Telecommunications Inquiry 2002, *Connecting Regional Australia: The Report of the Regional Telecommunications Inquiry*, p.xxiii., Finding 6.4.

[37] ibid., p.xxiv. Recommendation 6.3.

Figure 1.2

Timeline of ABG and predecessor programs
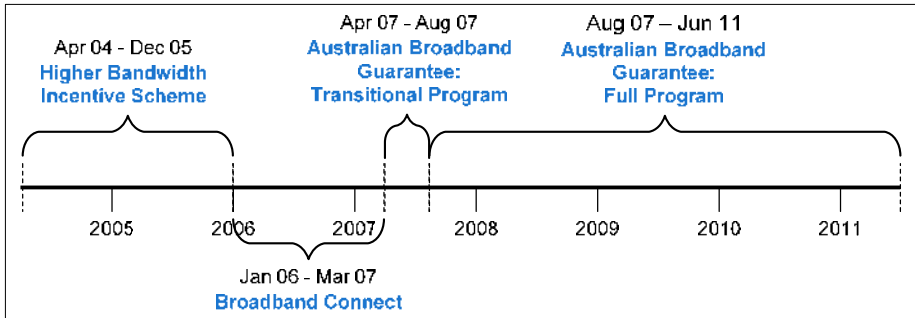
Source: ANAO analysis of DBCDE data.

1.8   The primary objective of the HiBIS and BC programs was to achieve prices for higher bandwidth services in regional Australia that were comparable to metropolitan services.[38] The objective for the ABG program has been revised a number of times and, from August 2008 to June 2010, was to provide all Australian residential and small business premises with access to metro-comparable broadband services. A metro-comparable broadband service is defined in the program guidelines as providing data speeds of at least 512/128 kbps and a data allowance of three gigabytes (GB) per month, at a total cost to the customer of no more than $2500 (including GST) over three years (equivalent to a maximum of $69.44 per month). While the program guaranteed access to a metro-comparable service, eligible customers could choose to connect to cheaper or more expensive service plans offered by the provider and registered under the program.

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[38]   There were also two supporting objectives: to promote competition among higher bandwidth service providers; and to ensure efficient use of public funds by effectively targeting support to areas of need in regional Australia.

1.9   From 1 July 2010, the objective of the program was revised: the objective now being to provide eligible Australian residential and small business premises with access to high quality, reasonably priced broadband services in locations where such services are not commercially available.[39] These locations continue to be in rural and remote areas where commercial infrastructure has not been deployed, and where a proportion of premises remain underserved.

1.10   The program offers one-off incentive payments (subsidies) to registered internet service providers to connect and supply broadband services to eligible premises.[40] The total cost of the incentive payments made to registered providers for the ABG and predecessor programs is shown in Figure 1.3. The number of connections, by program and year, is shown in Figure 1.4.

Figure 1.3

Annual expenditure under HiBIS, BC and ABG programs
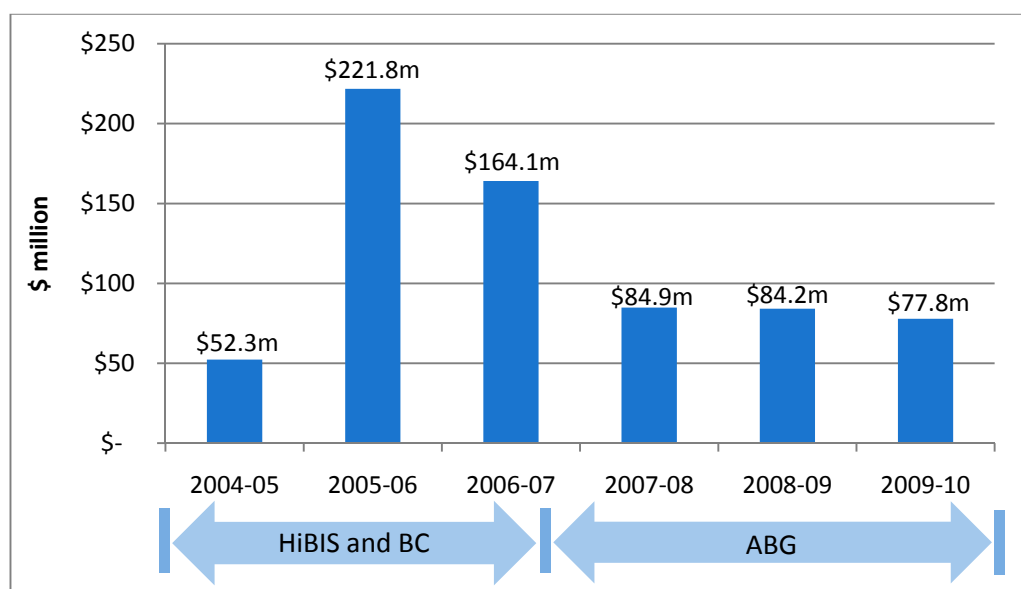
Source: ANAO analysis of DBCDE data.

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39   DBCDE, *Australian Broadband Guarantee Program Guidelines 2010–11*, July 2010. The program complements the roll out of services by the National Broadband Network (NBN).

40   Providers are required to offer to provide the ABG service to the customer for three years.

Figure 1.4

Broadband connections under HiBIS, BC and ABG programs
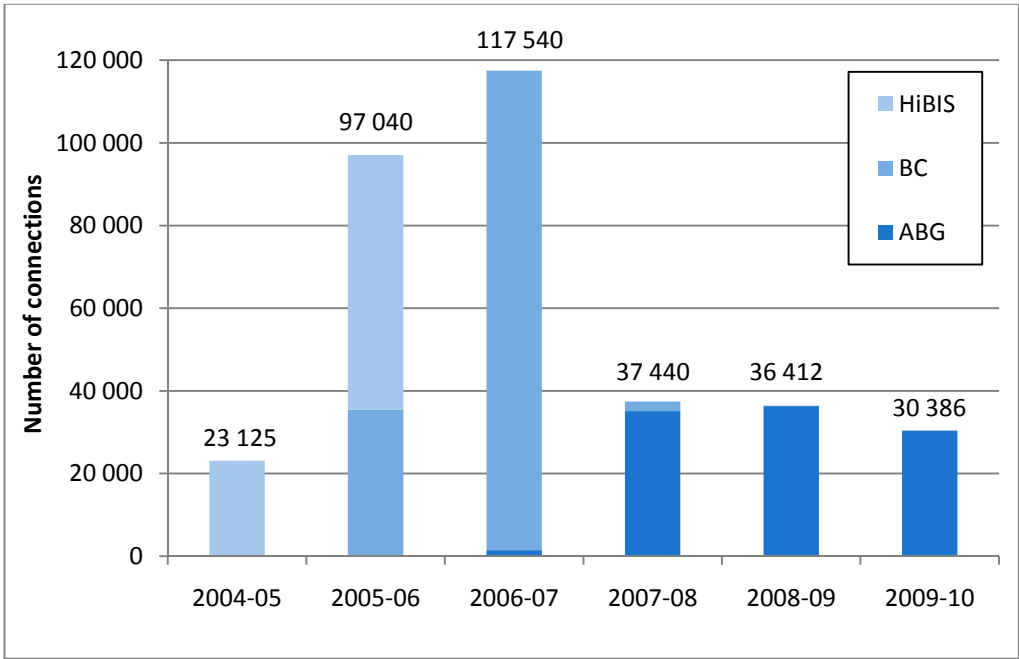
Note: ABG includes 13 116 connections made under the Transitional program.

Source: ANAO analysis of DBCDE data.

1.11 The type of broadband connections subsidised under government schemes has changed from predominantly being fixed line connections (under HiBIS and BC) to almost entirely satellite connections (under the ABG program), as shown in Figure 1.5. To 30 June 2010, satellite connections accounted for over 94 per cent of all ABG connections. The ABS reported that there were 113 000 satellite internet connections in Australia as at June 2010. Of these connections, 93 500 (approximately 83 per cent) were subsidised by the ABG program.

Figure 1.5

HiBIS, BC and ABG programs broadband connections by technology platform 2004–05 to 2009–10
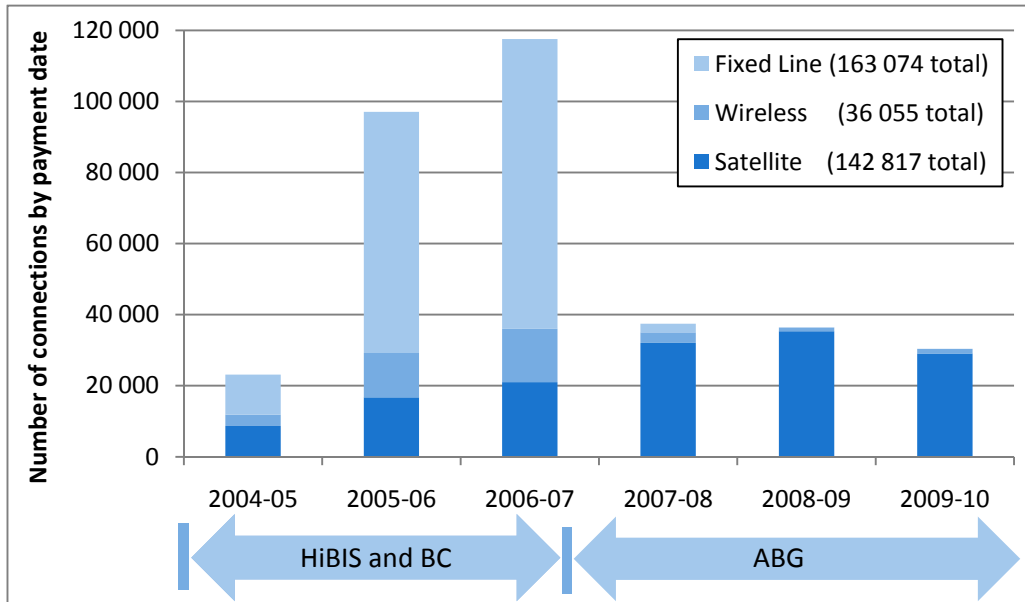
Source: ANAO analysis of DBCDE data.

ABG program overview

1.12   The ABG program has complemented other broadband infrastructure programs and initiatives. Initially, this was in relation to the Broadband Connect Infrastructure Program, and since June 2008, the roll out of services under the National Broadband Network (NBN).[41] In this complementary role, the ABG program provides access to subsidised broadband services to areas where fast broadband has not yet been rolled out under these infrastructure initiatives.

1.13   At the start of the ABG program, there were almost three million non-metropolitan households. At that time, the department estimated there were more than 787 000 underserved premises[42] in non-metropolitan areas and

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[41]   Progressively over eight years from April 2009, the NBN is intended to provide broadband download speeds of between 12 megabits per second and 100 megabits per second to all Australian premises through a mixture of fibre optic, wireless and satellite technologies.

[42]   Underserved premises are the total number of premises in an area that do not have access to the ABG defined metro-comparable broadband service apart from an ABG connection.

140 000 in metropolitan 'black-spot' areas.[43] The ABG was originally designed to subsidise broadband connections at a total cost of $142.6 million over the period from April 2007 to June 2008. The program was extended, and delivered about 103 250 subsidised broadband connections at a total cost of some $258 million in the period from 2 April 2007 to 30 June 2010. The average government subsidy during 2009–10 was $2760 per connection[44] (exclusive of the cost to customers).

Administrative arrangements

1.14   The ABG program is an executive scheme[45] administered by the Department of Broadband, Communications and the Digital Economy (DBCDE).[46] The portfolio Minister approves the program's guidelines, which set out the ABG's operational rules, and these are given legal effect through a funding deed between the Australian Government (represented by DBCDE) and each registered provider. The Minister has delegated responsibility to the department to administer the program.[47]

1.15   The ABG draws on an annual appropriation to pay claims lodged by registered providers for services provided under the program. Customers who meet the criteria set out in the guidelines are entitled to participate in the program. A customer is only eligible for a subsidised broadband service if he/she is an eligible customer type; their premises is an eligible premises type; and their premises does not have access to a metro-comparable broadband service (as defined by the program guidelines). The key output provided by the program is a subsidised broadband connection for either a residential

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[43]   Metropolitan black-spots were outer metropolitan areas (mainly in Adelaide and Perth) that could not access metropolitan broadband services due to the distance from DSL enabled exchanges, and topography that blocked a wireless broadband signal.

[44]   GST inclusive.

[45]   Executive schemes rely on executive rather than legislative power, and their key advantage is the speed in which they can be established and their flexibility. A challenge in implementing an executive scheme is ensuring that any terms and conditions are clear and enforceable. As noted by the Commonwealth Ombudsman, many of the checks and balances in programs are conveyed through legislation. Source: Commonwealth Ombudsman, *Executive Schemes* [Internet]. Commonwealth Ombudsman 2009, available from <http://www.ombudsman.gov.au/files/investigation_2009_12.pdf> [accessed 24 August 2010].

[46]   DBCDE replaced the former Department of Communications, Information Technology and the Arts in 2007.

[47]   The program is administered by a Branch within DBCDE with approximately 55 full time equivalent staff across six specialised areas, including a dedicated consumer support call centre.

household or a small business.[48] Providers are obliged, under their funding deeds, to offer ABG services to new customers.[49] When unexpended program funds fall to $10 million, this obligation is suspended.[50]

1.16 The program has five payment levels associated with the different technology platforms and installation circumstances. Almost all payments made under the program were for $2750, with most being for satellite services. Payments of up to $6600 can be made for difficult and costly installations, such as in cyclone prone areas.[51] However, these represent only about five per cent of the total value of payments made. In 2009–10, the top three providers received about 70 per cent of total subsidies paid under the program. The department maintains a website with information on the ABG program and also relies on providers to market the program to potential ABG customers.

Provision of services to ABG customers

1.17 Both customers and Internet Service Providers (ISPs) must formally register to be eligible to participate in the ABG program.

Customers

1.18 Potential customers register by entering their address in the Broadband Service Locator (BSL), accessed via the department's website, which identifies whether their address is eligible for a subsidised connection. The department sends them an information pack that explains how to arrange a broadband service with registered providers in their area (if they are eligible), or a list of commercial broadband providers. Eligible customers must sign a declaration form if they proceed with a connection. This form is given to their provider.

Internet Service Providers

1.19 To participate in the ABG program, ISPs[52] must submit registration applications to the department that include their proposed:

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[48] About one in every ten ABG connections is for a small business (defined under the guidelines as 20 or fewer full time equivalent employees).

[49] Providers are required to offer to provide the ABG service to the customer for three years.

[50] Providers are notified by DBCDE when unexpended funds fall to $20 million, $10 million, $5 million and when funds are fully expended. Revised notification and obligation limits apply in 2010–11.

[51] These are referred to in the guidelines as 'Level 5' payments and were introduced in August 2008.

[52] An ISP must be a current member of the Telecommunications Industry Ombudsman (TIO) scheme as required by the *Telecommunications (Consumer Protection and Service Standards) Act 1999*.

- service areas (geographic locations);

- service solutions (technology platforms); and

- service plans (specifying broadband speed, data allowance and cost).

Registered providers may connect and supply broadband services to eligible premises and lodge payment claims with the department. Claims are lodged online using the Broadband Customer Online Management System (BCOMS). Providers must separately mail a compact disk to the department with portable document format (PDF) copies of the completed customer declaration forms. Sixteen providers were registered under the ABG program during 2009–10 (including two inactive providers).[53]

Service plans

1.20 Providers may register multiple service plans under the ABG program, subject to the criteria set out in the program guidelines. The criteria applying from 3 August 2008 to 30 June 2010 are shown in Table 1.1.

Table 1.1

Minimum standards for registered service plans

Service plan	Download speed	Upload speed	Data per month	Cost over three years
Entry level	256 kbps	64 kbps	500 MB	Discounted cost relative to threshold service
Threshold	512 kbps	128 kbps	3 GB	Up to $2500 (including GST)
Added value	1024 kbps	256 kbps	5 GB	Reasonable cost relative to threshold service

Source: DBCDE *ABG Program Guidelines 2009–10*, pp.15-17.

1.21 Providers are required to offer at least one threshold service and one added value service. They may also offer cheaper, lower capacity, entry level services and additional added value services. The total number of different service plans offered by providers has increased over the life of the program, from around 250 in 2007-08, to over 300 in 2009-10, although not all of these plans have been taken up by ABG customers.[54] After connecting a customer, providers must continue to supply the ABG service for the term of

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[53] There were 55 providers under the HiBIS and BC programs, of which 32 were re-registered during the ABG Transitional program. At the time of preparation of this report, 11 providers were registered under the 2010–11 program.

[54] Over two-thirds of ABG customers were connected to 37 service plans.

the contract between the customer and the provider.[55] Providers may apply to the department at any time to vary their service plans offered to new customers. The department has established a range of ongoing compliance activities for monitoring the performance of registered providers.

1.22 The ABG program introduced the entry level service, which is now the most common service level taken up through the program. Under the HiBIS and BC programs, 80 per cent of connections were threshold level and 20 per cent were added value. Under the ABG program, over the period July 2008 to June 2010, some 74 per cent of connections were entry level, 21 per cent were threshold level, and less than five per cent were added value.

Revised program arrangements

1.23 In 2010–11, the ABG program aims to provide a measured and seamless transition to the high speed broadband services that will be made available under the NBN, by providing access to subsidised program services while the NBN is being rolled out.[56] The standards for threshold services under the program have been improved, effectively doubling speeds to one megabit per second download and 256 kbps upload, and the monthly data allowance to six gigabytes (with at least three gigabytes at peak times).

1.24 New ABG customers receive an extended warranty of at least three years on all new customer premises equipment (previously one year). An improved testing regime is designed to provide for stricter requirements around speed and quality of service, with tighter departmental monitoring of provider network management practices, to ensure that customers experience adequate services, particularly at peak usage times.

1.25 The target population for ABG-supported broadband services has also reduced as a result of the successful expansion of commercial wireless services in previously poorly-served areas. Accordingly, the expected number of connections in 2010–11 has more than halved compared to the previous year (from 31 000 to 13 700 subsidised connections).

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[55] The maximum contract term of the service is 36 months from initial commencement of the ABG service. There is no minimum contract term although effectively it is one month as contracts are usually priced on a monthly basis. At the conclusion of the initial contract, the customer has the right to renew for a negotiated period at a monthly price no greater than the original contracted price.

[56] DBCDE, *ABG Program Guidelines 2010–11*, July 2010. The NBN is intended to provide speeds of 100 Mbps to 93 per cent of Australian premises. Next generation wireless and satellite technologies are expected to be used to cover the remaining seven per cent. However, these next generation services are not expected to become available until at least 2014.

Previous audit coverage

1.26   A performance audit of the management of HiBIS and BC Stage 1 was completed in May 2007.[57] The audit found the programs had achieved their objective of providing broadband services to regional Australia at prices and functionality comparable to those in metropolitan areas. However, the audit also identified that the programs lacked a project implementation plan and risk management strategy that would have helped to better identify and manage the programs' risks. Consequently, for much of HiBIS/BC Stage 1, a lack of administrative resources led to inadequate controls over the assessment and payment of provider claims.[58]

1.27   Various internal audits and other reviews covering the operation of the ABG program have subsequently been conducted, including an internal program evaluation. These reviews are outlined in Appendix 2.

Audit objective, scope and methodology

1.28   The objective of the audit was to assess if DBCDE had effectively managed the ABG program, and the extent to which the program was achieving its stated objective. In particular, audit criteria were developed that included examination of DBCDE's activities from the commencement of the ABG program on 2 April 2007 to 30 June 2010 covering:

- program planning and implementation;

- assessment of customer eligibility and registration of service providers;

- compliance, monitoring and the making of subsidy payments; and

- program performance measurement and reporting.

1.29   The audit was conducted in accordance with the ANAO auditing standards at a cost of $633 000. The methodology included:

- interviews with ABG program staff and analysis of key program documentation;

- examination of a sample of ABG provider applications;

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[57]   ANAO Audit Report No.36, 2006–07 *Management of the Higher Bandwidth Incentive Scheme and Broadband Connect Stage 1.*

[58]   ibid, p.14.

- evaluation and testing of the customer registration and claim assessment processes;

- review of the department's testing of provider's services; and

- analysis of databases supporting the registration of customers and the payment of incentives to providers.

Report structure

1.30   The structure of the report is outlined in Figure 1.6.

Figure 1.6

Report structure

Chapter 1: Background and Context
- ABG program overview
- Previous audit coverage
- Audit objective, scope and methodology

Chapter 2: Program Governance Arrangements
- Planning processes
- Management of program risks
- Forecasting and managing demand for the program
- Internal management reporting

Chapter 3: Provider Registration
- Registration rounds
- Application process
- Assessment process
- Registration of providers

Chapter 4: Assessing Customer and Claim Eligibility
- Pre-claim assessment of customer eligibility
- Post-claim assessment of customer and claim eligibility

Chapter 5: Monitoring and Compliance
- Compliance framework
- Telephone audits
- Contracted testing of broadband services
- User testing by ABG customers
- Compliance audit activities
- Education and liaison activities
- Annual and half-yearly provider compliance reports
- Complaints management
- Internal reporting on compliance

Chapter 6: Review, Measurement and Reporting of the ABG Program
- Periodic reviews of ABG service levels and subsidies
- Measuring and reporting the performance of the ABG program

2. Program Governance Arrangements

This chapter examines the governance arrangements for the ABG program.

Introduction

2.1   The ABG program built on the experience gained through its predecessor programs and this was largely reflected in the program's guidelines, and administrative and governance arrangements. The audit examined the governance arrangements for the program, including the department's planning and risk management processes, the forecasting of demand for program services, and management reporting.

Planning processes

2.2   An Implementation Plan for the program was finalised and submitted to the Cabinet Implementation Unit (CIU)[59] in mid-November 2007 and quarterly reports were provided to the CIU until March 2008. The main areas addressed in the plan included: program governance and compliance; risk management; stakeholder management; financial administration; quality assurance; and reporting. Measures of achievement were outlined in the plan, including: trends over time in the level of take-up of subsidised metro-comparable services by eligible customers; increase in take-up of the number of threshold services; increased level of take-up of subsidised services by small businesses and Indigenous Community Councils; and reduction in complaints   made   by   customers   about   ISPs   to   the   department, Telecommunications Industry Ombudsman (TIO) and Members of Parliament. However, there was no quantification of either baseline benchmarks or targets for these measures.

2.3   The ABG Implementation Strategy is produced within the context of the department's annual planning process. This document is the definitive planning and instructional tool for the program. The ANAO examined the strategies for 2008–09 to 2010–11. The strategies describe the program and the (then) current arrangements in place, with a number of 'forward strategies' identified under several topics, including organisational structure and governance; financial management; compliance framework; risk management

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[59]   The CIU is part of the Department of the Prime Minister and Cabinet.

framework; reporting framework; knowledge management; IT support systems; and customer service.[60] However, most of these forward strategies did not include implementation timeframes. The six forward strategies for 2009–10 in relation to enhancing the program's information technology support systems had been 'rolled over' from the previous year and were subsequently rolled over again into the strategy for 2010–11.

Management of program risks

2.4   The earlier performance audit of the ABG's predecessor programs noted that there were inadequacies in the department's risk management processes.[61] A risk register was implemented in June 2007 (a few months after the start of the ABG Transitional Program) and, prior to commencement of the current audit, was revised three times (September 2008, May 2009 and September 2009). However, the information recorded in the register was generally not of sufficient quality to infer that reliable risk assessments had been undertaken.

2.5   During the audit, the department reviewed its ABG risk register (in February, April and July 2010), including most recently to reflect the commencement of the new 2010–11 program arrangements. The risks identified are now more strategic and, where relevant, include a reduction in the assessed risk level after treatment. Risk ratings are also standardised in accordance with the department's risk matrix. The department advised that the ABG Governance and Risk Management Committee[62] will review the risk register each month, to monitor the controls and treatments for existing risks and to identify any new risks that should be added to the register. DCBDE also intends better aligning the register and the risk assessment information included in the ABG monthly traffic light reports to the department's Performance Reporting Committee (PRC).[63]

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[60]   An example of a forward strategy for the reporting framework was: explore more meaningful ways in which to measure program performance against the stated key performance indicators. An example for IT support systems was: implement a workflow management and reporting tool to better service the program's business processes (for example, monitoring provider applications).

[61]   Audit Report No.36, op cit., pp.37-38.

[62]   The Governance and Risk Management Committee meets weekly. Membership comprises the Assistant Secretary and all managers of the ABG Branch.

[63]   The PRC is chaired by the Secretary and meets monthly to oversee the performance of the department's administered expense items and major departmental programs.

Forecasting and managing demand for the program

2.6 Like its predecessors, the ABG program is an entitlement-based or demand-driven program, where the amount of program funds required in any period depends on the actual number of valid claims received. Predicting demand for the services of any government program can be challenging, but there is a range of options available to minimise the risk that additional funding will be required, or funds will remain unspent, by year end. For example, holding back a proportion of payments to ensure quality standards are achieved or requiring some co-payment for those benefiting from the program.

2.7 Actual administered expenditure for the program in 2007–08 and 2008-09 was $84.9 million and $84.2 million respectively. Budgeted expenditure in 2009–10 was initially $59.1 million. However, within the first few months of the financial year, it became apparent that if claims continued to be received at the rates then being experienced, the annual allocation would be fully expended by early 2010. Accordingly, on 22 October 2009, the Government agreed to bring forward $22.8 million in funding from 2011–12, increasing the total 2009-10 budgeted funding for the program to $81.9 million. These figures suggest that there has been a reasonably consistent level of annual demand over the first three years of the program.[64]

2.8 A modelling tool for forecasting demand for the program's services was developed by a consulting firm between May and September 2009, albeit relatively late in the life of the program. The tool contributed to formulating the revised estimates submitted to Government in October 2009. The use of a demand modelling tool that draws on empirical data, such as the number of remaining underserved premises, is an improvement upon previous forecasting methodologies. However, the choice of other assumptions, such as those relating to take-up rates, has the potential to dramatically affect the outputs of the model. As such, it is important that these assumptions are based

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[64] By October 2009, the total number of claims expected during 2009–10 had risen by some 46 per cent, from 22 750 to 33 322. In terms of the final outcome, the actual number of claims paid during 2009–10 was 30 386, some nine per cent below the 33 000 claims anticipated at the time Additional Estimates were approved. By the time of the May 2010 Budget, the target was revised down to 30 400 claims.

upon the best available information and the effect of, and rationale for, any changes is clearly documented.[65]

2.9   Until March 2010, DBCDE did not keep copies of the model, as run, which would have allowed a closer examination of these matters. During the audit, the department produced operating instructions for the model, to supplement those provided by the consultants in October 2009. The department advised that these instructions will be expanded to include quality control processes and clearance procedures, particularly acknowledging the need for formal recognition of assumption changes. DBCDE also advised that the model is being revised to reflect the 2010-11 ABG program. The department was not able to use the model to estimate demand in 2010–11 because historical demand under the program is not reliable in predicting future demand for the two main streams: areas not covered by Telstra Next G; and wireless areas registered and subsidised under the existing program. The ANAO has also suggested that utility of the model would be enhanced if data was segmented by customer type (such as residential or small business).

2.10   There is an opportunity for the department to take on board a number of the 'lessons learned' in relation to developing and implementing the forecasting model. In February 2010, an internal audit also observed that:

> … analytical review of patterns in the current usage and take-up of the ABG program by region, etc, can assist in demand forecasting for broadband services in future years, especially as previous programs come to an end.

2.11   Given the limited period in which the model has been in use, coupled with the need to adjust the model to better reflect the changes in the program that came into effect on 1 July 2010, it is too early to form definitive conclusions on the overall utility of the model. The ANAO suggests that a formal evaluation be conducted when the department has some experience in operating the redeveloped model, to determine its utility for other programs administered by the department.

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[65]   The assumptions were changed only once, in February 2010. When forecasting expenditure, DCBDE also multiplied the model's output (predicted number of claims) by the historical average cost per subsidy paid. This produced less accurate expenditure forecasts than using the current average subsidy rate.

Internal management reporting

2.12 Timely, reliable and accurate reports are essential for informed management decision-making and are a key accountability mechanism. The key elements of the ABG internal reporting framework are:

- routine Ministerial reports;[66]

- monthly traffic light reports (to the department's Executive); and

- weekly reports on customer service issues (within the ABG branch).

2.13 Monthly reports to the Minister on the operation of the ABG program commenced in July 2008.[67] The design and content of the reports was initially developed by the department in mid-2007, in consultation with the (then) Minister's office.[68] Although the department was advised that the Minister expected the reports to be provided within two to three weeks of month-end, more than two-thirds of the reports did not meet this timeframe, including six instances where the monthly report was combined with one (or two) subsequent monthly reports.[69] Only two reports met the mid-month timeframe stated in the operations manual.

2.14 Traffic light reports are generally due around the end of the first week of each month for circulation before mid-monthly meetings of the PRC. The ANAO examined the reports issued from June 2008. The reports comprise a 'report on a page' covering key statistics, key milestones, risk assessment and additional commentary, in addition to actions planned to address unfavourable trends. The reporting format provides a concise and effective mechanism for executive-level reporting.

2.15 Weekly reports produced by the Broadband Consumer Support section are another component of the ABG internal reporting framework. The ANAO examined the reports issued from when they commenced in July 2009. These

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[66] DBCDE also provides the Minister with weekly 'Over the Horizon' reports, which may include the ABG program on an 'as required' basis.

[67] Monthly reporting to the Minister was one of the deliverables listed in the Program Implementation Plan. It was also a commitment made in minutes to the Minister dated 15 June 2007 and 26 March 2008.

[68] Reports are typically around 12-16 pages in length. More detailed statistics and commentary are included in attachments, including a section on compliance.

[69] These reports were submitted up to 80 days after the end of the reporting month. One report (May 2009) stated that the previous month's report was held over because a detailed briefing was provided at that time in the context of budget deliberations.

reports, which are circulated to section heads, provide statistics on the day to day functions of the program, including call numbers, types of calls, complaints (including escalations) and information packs mailed out.

Accuracy of reports

2.16   In a number of instances, the reported figures in the internal reports could not be readily verified to relevant source data.[70] DBCDE acknowledged that it did not routinely keep records of how it derived the reported figures. In some cases, changes over time in what was being reported were not fully transparent, either because of delays in amending the title of the reported element, or inclusion of differently derived (and therefore not strictly comparable) datasets presented as a single time-series.

2.17   The ANAO made several suggestions to DCBDE aimed at improving the presentation and streamlining the content of various internal management reports. In addition, while there was high-level information on the source of report information listed in the operations manual (e.g. BCOMS), the ANAO suggested that this should be supplemented by more detailed instructions, including which reports to run, the parameters to be used and record keeping requirements for an adequate audit trail.

2.18   The department advised that it now retains records supporting the information reported, including 'screen shots' of the queries used. It also advised that additional documentation of procedures to run reports will be included when the operations manual is next updated. A greater focus on attention to detail in relation to the contents, accuracy, relevance and concise presentation of individual reporting components will enhance the reliability and user-friendliness of the reports. DBCDE advised that it will continue to refine the reporting framework to ensure that it remains relevant to stakeholder needs.

Conclusion

2.19   The department has established governance arrangements to administer the ABG program. Over time, generally adequate planning, risk management, internal reporting and demand forecasting processes have been implemented and improved. However, the usefulness of some of these

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[70]   One case was attributed to an error in the reporting query used.

measures was reduced by a number of factors, such as: the delayed implementation of the demand forecasting model; the timeliness of management reports; and until recently, the currency and quality of the program's risk register.

2.20 At times, there have been inconsistencies or anomalies in the program metrics reported in internal management reports—an issue compounded by the practice of not keeping records of how the data reported was derived. Similarly, by not keeping copies of the outputs of the demand forecasting model, the department has impaired its ability to effectively review and adapt the model. The department has now implemented procedures to retain appropriate records.

3.   Provider Registration

This chapter examines the department's processes for registering providers in the ABG program, the execution of funding deeds, and variations to the deeds.

Introduction

3.1   The administrative framework for the ABG program is established by the program guidelines, which are approved by the Minister. The guidelines require ISPs who wish to participate in the ABG program to apply to the department for registration. The department manages the application, assessment, approval and registration process.

3.2   There were 18 registered providers during 2009–10.[71] An approved applicant is registered by signing a contract (the funding deed) with the Commonwealth that sets out the terms and conditions of their service provision under the program. If a provider wishes to change their service solutions, service plans or service areas, the department must then vary the funding deed before the provider can connect customers under these revised parameters and commence making claims. When a deed is due to expire, the department may invite an existing provider to apply for re-registration under a fast-track application process. The funding deeds also set out requirements for annual and half-yearly compliance reporting by providers.

Registration rounds

3.3   There have been four registration rounds since the start of the transitional ABG program.[72] The duration of the rounds has varied from a few weeks to a few months, as outlined in Table 3.1. The department publicly announced the start of each registration round on its website. Although the transitional program was restricted to all registered Broadband Connect and Metropolitan Broadband Connect service providers to allow an orderly transition from these programs, all subsequent rounds were open to all suitably qualified ISPs, thereby promoting competition among providers.

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[71]   Including two inactive providers.

[72]   Excluding the 2010–11 ABG program application round conducted in mid-2010, which was not examined by the ANAO.

Table 3.1

ABG application rounds

Program	Round start	Round end	Program start	Program end
ABG (transitional)	1 Apr 2007	18 Apr 2007	2 Apr 2007	13 Aug 2007
ABG round 1	1 Jun 2007	13 Jul 2007	14 Aug 2007	30 Jun 2008
ABG round 2	4 Sep 2007	2 Oct 2007	3 Oct 2007	30 Jun 2008
ABG round 3	2 Jul 2008	Fast track: 16 Jul 2008 Full application: 31 Oct 2008	1 Jul 2008	30 Jun 2010
ABG round 4	27 Feb 2009	30 April 2009	27 Feb 2009	30 Jun 2010

Source: DBCDE information.

3.4   In successive rounds, the departmental website provided a range of information to assist potential applicants, such as program guidelines, assessment criteria, application forms and information packs.

3.5   The ANAO examined the applications, assessment documentation, funding deeds and variations for a sample of eight providers that applied in 2008–09 (registration rounds Three and Four).[73]

Application process

3.6   The ABG program has a well-established application, assessment and registration process for providers[74] (see Figure 3.1). From Round Two in September 2007 (the first full program round), the ABG guidelines required applicants seeking first-time registration to submit detailed information about themselves, their financial position and their operations, using an application form downloaded from the department's website.

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[73]   For providers with fast-track applications, the ANAO also reviewed earlier documentation associated with their last full application submitted.

[74]   The ABG program guidelines and the ABG operations manual set out the requirements for the process.

Figure 3.1

Australian Broadband Guarantee provider registration
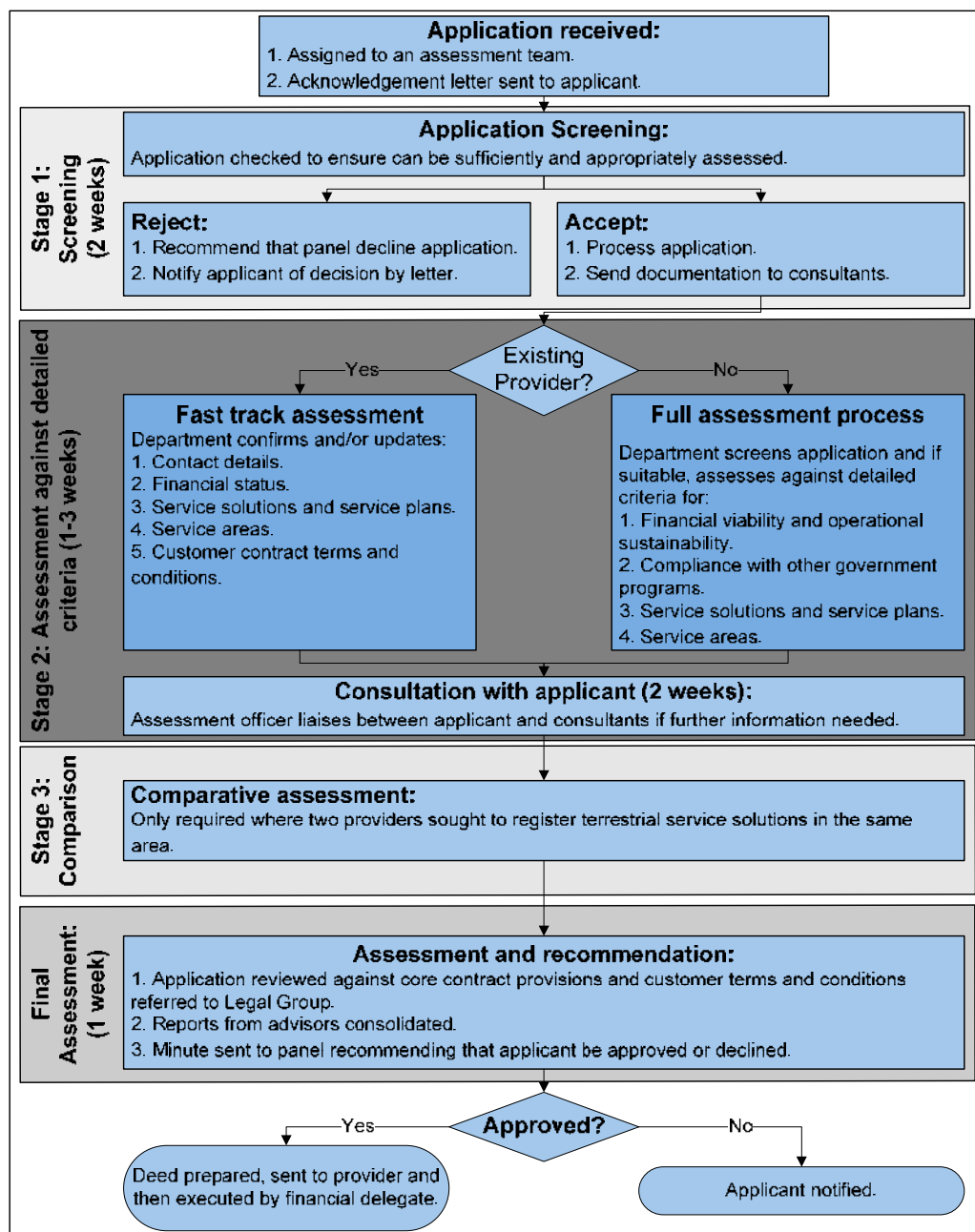
Source: ANAO analysis of DBCDE information.

3.7 At the discretion of the department, existing providers were invited to submit fast-track applications designed to confirm the information they provided previously. This streamlined approach reduced the administrative burden for complying providers and avoided duplication of effort by the department, while ensuring that providers had not made substantive changes to their arrangements since their last full application.

3.8 When an application was received by the department, it was assigned to an assessment team, and an acknowledgement letter, including details of a contact officer, was promptly sent to the applicant. The department's processing system provides assurance to applicants that their application is receiving due attention, and facilitates communication should any queries arise.

Assessment process

3.9 The department draws on the expertise of departmental legal advisors, technical and mapping experts, and external financial consultants in assessing applications. The sampled applications were assessed in up to three stages:

- stage one: the application was screened to decide whether it could be sufficiently and appropriately assessed;

- stage two: the application was assessed against detailed criteria[75]; and

- stage three: comparative assessment of service areas, when two or more applicants sought to register terrestrial service solutions in areas where the department considered only one provider should be registered.

3.10 Although target timeframes for the assessment of applications had been set following a June 2008 internal audit, achievement against these targets was not measured and reported.[76]

Financial and technical assessment

3.11 The department's financial consultants assessed the applications against the financial viability and operational sustainability criteria. This assessment covered applicants': financial ratios; solvency; audit status;

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[75] Key criteria were: financial viability and operational sustainability; compliance with other government programs; proposed service solutions and service plans and proposed service areas.

[76] The targets were included in the ABG operations manual. The overall target for assessing 'all straightforward' applications was eight weeks.

financial performance; access to adequate funds to meet program commitments; board experience and integrity; senior management experience and integrity; sustainability of business plan; risk management; statutory declaration; compliance record in previous government broadband programs; and regulatory status. The department took the financial consultant's advice into account when assessing the applications. In two cases, the consultants did not recommend the applications as submitted because of financial viability concerns. In both these cases, the department sought personal guarantees to mitigate these risks before approving the applications.

3.12 The ABG Branch's Technical Advisory Unit (TAU) and mapping team assessed applicants' technical claims. The TAU examined applicants' service solutions (e.g. ADSL, cable, wireless, or satellite); and service plans (including at least one threshold service and one added value service, plus any proposed optional entry level services). The mapping team examined applicants' service areas to establish whether they would provide coverage to a significant number of under-served premises. These technical assessments were taken into consideration in the overall assessment of the provider applications.

Fast-track application process

3.13 Providers that were registered in 2007–08 and had no outstanding compliance issues were invited to apply for re-registration in 2008–09 under a fast-track application process. This process, which applied to six applications examined by the ANAO, confirmed and/or reviewed: contact details; financial status; service solutions; service plans; service areas; and customer contract terms and conditions.

Overall assessment and recommendation

3.14 Following the assessment process, the assessment team forwards its recommendation to the departmental assessment panel.[77] The chairperson (Chair) is authorised on behalf of the panel to approve or decline the application. Applicants are then notified of whether or not they have been approved for registration under the program. There have been five application and assessment rounds for the program. The outcome of each round is presented in Table 3.2.

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[77] The ABG operations manual states that the panel is chaired by the Assistant Secretary of the ABG Branch, and includes managers from ABG Compliance, ABG Operations, Broadband Systems and Support, and Broadband Consumer Support, together with a TAU representative.

Table 3.2

Outcome of application and assessment rounds

Application rounds	Applications lodged	Applications approved	Applications declined	Applications withdrawn
Transitional round	43	32	11	0
Round 1 (2007–08)	44	18	26	0
Round 2 (2008–09)	12	11	1	0
Round 3 (extension of 2008–09 round)	22	7	13	2
Round 4 (2009)	5	1	4	0
Total	**126**	**69**	**55**	**2**

Source: ANAO analysis of DBCDE information.

Registration of providers

3.15 For each approved application, the department negotiates and executes a funding deed, which sets out the terms and conditions of the provider's registration in the program. The provider can only claim subsidies for services to eligible customers connected after the deed is executed. Once registered, a provider may apply to vary the deed to add or alter service plans, service solutions, and service areas.

3.16 The assessment of variation requests follows a similar process to the assessment of applications for registration, with referral to the TAU and the mapping team, as required. When the assessment is completed, a recommendation is made to the Assistant Secretary, ABG Branch. If approved, a variation to the deed is drafted, and sent to the provider for signature.

Examination of applications, funding deeds and variations

3.17 All providers in the ANAO's sample had a deed in place signed by the delegate[78] that set out the terms and conditions for providing their services under the ABG program. The majority of applications for registration, or requests for variation to the deed, were duly processed, approved by the Chair, and executed. In three instances, there was either: no submission for

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[78] The delegate for the purposes of the *Financial Management and Accountability Act 1997* is the First Assistant Secretary, Networks Policy and Regulations Division.

approval of a variation; the submission for approval of a funding deed was not approved by the Chair as further information was required; and although the submission for approval of an extension to a funding deed was signed, it was not notated as being agreed to by the Chair.

3.18   During the audit, the ANAO raised concerns that the department's practices resulted in providers being advised that their applications had been either accepted or rejected before submitting any details to the financial delegate for decision. After taking legal advice on this matter, DBCDE advised that it would, in future, ensure that funding deeds are not forwarded to providers for execution until after the financial delegate has approved the allocation of funds for the Commonwealth to enter into a financial arrangement.

Conclusion

3.19   The department has implemented structured and transparent processes for the assessment and registration of providers in the ABG program. The program guidelines contain comprehensive information about the program, including the application, assessment and registration process. The guidelines have been regularly reviewed, approved by the Minister, and made publicly available on the department's website. The website also provides application forms and other explanatory material. The ABG operations manual details the procedures for provider assessment and registration, with benchmark timeframes. The department consults with expert advisors to assess applicants' financial and technical capacity prior to registration.

3.20   The sample of eight registered providers examined by the ANAO all had signed funding deeds in place. There was also a system to authorise variations to the funding deeds at the discretion of the department, which enables flexibility in service provision for the life of the deeds. Following registration, proposed changes to the funding deed were usually formally assessed and approved before a variation was executed by the delegate. To strengthen its procedures in accordance with legal advice received, the department has agreed that applicants will not be advised of the outcome of their applications prior to formal approval by the delegate.

4. Assessing Customer and Claim Eligibility

This chapter discusses the customer eligibility requirements and the processes in place to ensure those requirements are met before an incentive payment is made to registered service providers for supplying ABG services to customers.

Introduction

4.1   As previously noted, the ABG program provides access to subsidised broadband services for eligible customers across Australia. As with any subsidy program, it is important to ensure that ABG subsidies are only paid for services provided to eligible customers. Under the ABG program guidelines, a customer is only eligible for a subsidised broadband service if:

- they are an eligible customer type;

- their premises is an eligible premises type; and

- their premises does not have access to a metro-comparable broadband service (as defined by the program guidelines).

4.2   A registered provider is entitled to receive an incentive payment if they connect and supply an ABG service to a customer, located within their registered service area, who has been determined as eligible by the department. DBCDE assesses eligibility at two stages, when a:

- customer registers for the ABG program (pre-claim); and

- provider claims an incentive payment (post-claim).

4.3   Each eligibility assessment stage is supported by two interrelated database systems. The overall eligibility assessment process is also supported by a third database system (the Known Individual Management System or KIMS) which is used primarily by the ABG call centre to track interactions with registered customers.

4.4   The ANAO examined the processes the department has implemented for assessing customer eligibility at registration and for assessing claims from providers, prior to payment of the incentive.

Pre-claim assessment of customer eligibility

4.5 The first step for customers seeking an ABG service is to register with DBCDE using a web-based tool known as the Broadband Service Locator (BSL), which is hosted on the department's website.[79] Based on the information provided by the customer, the BSL assesses if a customer is eligible for a subsidised service using the five step process outlined in Figure 4.1.

Figure 4.1

Broadband Service Locator registration process
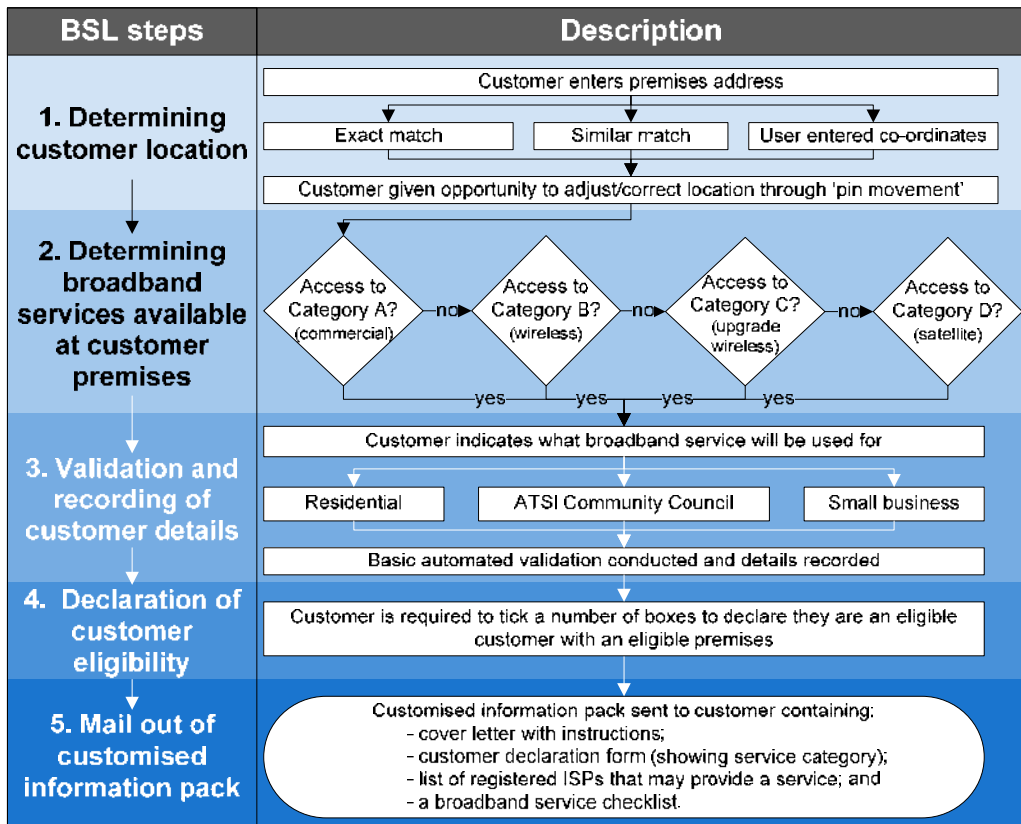
Note: This figure does not reflect minor changes to the BSL registration process effective from 1 July 2010.

Source: ANAO analysis of BSL processes.

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[79]   Customers unable to access the internet can call the department's ABG helpline or have a registered service provider fill in the BSL registration on their behalf.

Step 1: Determining customer location

4.6   Before the department can determine if a customer has access to a metro-comparable broadband service, the precise location of the customer's premises must be known. After customers enter their address, the BSL attempts to find a match with the Geocoded National Address File (G-NAF), a database produced by the Public Sector Mapping Agency that lists all valid physical addresses in Australia.[80] If an exact match is found, the BSL will show the customer a small map, pinpointing the premises location. If the BSL is unable to find an exact match, it will provide a list of similar matches from which the user can choose the most appropriate option.[81] Customers are given the opportunity to correct inaccurate plotting of their location by moving their premises 'pin' on the map shown on the webpage.[82]

4.7   The ANAO selected a random sample of 61 customers, registered during the calendar year 2009, to assess if the premises location had been correctly plotted. The ANAO compared the locations plotted for customer premises by the BSL and those plotted for the same address information on a third-party mapping application. In most cases (74 per cent), the BSL plotted a premises location that correlated with the premises visible in the satellite image from the third-party mapping software. In 21 per cent of cases, both platforms were only able to provide approximations of premises location, reflecting the regional and remote nature of these locations. For the remaining five per cent of cases, the information input by the customer appeared to be invalid, with neither mapping platform able to provide a reasonable location match.[83] Overall, the BSL accurately and reliably plotted the location of customer premises where adequate information was supplied.

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[80]   G-NAF links approximately 12.6 million physical addresses to specific geocodes (that is, the latitude and longitude of the address), source: <http://www.psma.com.au/products/gnaf.cfm> accessed 6 September 2010.

[81]   During testing by the ANAO, if the BSL was unable to find an exact match for the address it suggested alternative street numbers, the street only, the locality only and even the street name in a different locality. There is also provision for users to enter latitude and longitude co-ordinates of their premises if the BSL is unable to correctly plot the premises location.

[82]   Since the introduction of the ABG full program, 22 per cent of approximately 188 000 customers registered on the BSL have relocated their pin, of which just over half were moved further than 2km.

[83]   Of these cases, only one customer proceeded to connect an ABG service, after moving the pin on the BSL to the customer's correct location.

Step 2: Determining broadband services available at customer premises

4.8   Only customers that do not have access to a metro-comparable broadband service are eligible to receive a subsidised broadband service under the program. For ABG predecessor programs, the department relied heavily on customer declarations of their inability to access a metro-comparable service. The earlier ANAO audit recommended that the department assess the eligibility of premises in future claims more rigorously by using independent information sources.[84]

4.9   Under the ABG program, the BSL uses coverage maps of broadband services, sourced from both registered and commercial providers, to determine which broadband services are available at customer premises. Where metro-comparable broadband services (Category A) are available, the BSL refers the customer to those services. Where no Category A services are available, customers are directed to the appropriate subsidised service (Category B, then C, then D). The program deliberately favours subsidising wireless (Category B and C) services over satellite services (Category D).[85] If customers find they are unable to receive a service indicated by the BSL, they can be 'pushed through' to the next available service category by contacting the ABG call centre or entering the appropriate details at the time of registration. Figure 4.2 shows the broadband service coverage maps used by the BSL in January 2010.

4.10   In June 2009, analysis by DBCDE indicated that about 94 per cent of premises in Australia had access to Category A (commercial) services, with the remaining six per cent potentially eligible for ABG broadband services.[86] Reflecting the program's targeting of underserved premises in regional and remote areas, around 88 per cent of the 188 000 customer registrations on the BSL up to July 2010 were eligible for a subsidised service.[87]

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[84]   ANAO Audit Report No.36, Recommendation No.1(c), p.67.

[85]   Wireless technology generally has the capacity to deliver broadband services of better quality and value than satellite technology. For the ABG program, the ANAO analysis confirmed wireless services were generally better value, particularly where higher download limits are chosen.

[86]   About 0.5 per cent of premises had access to Category B or C (wireless) services and 5.5 per cent had access to Category D (satellite) services. These figures were based on premises included in the G-NAF and do not differentiate between potentially eligible or ineligible premises.

[87]   The majority (64 per cent) were eligible for Category D (satellite) services and 6.4 per cent were eligible for Category B or C (wireless) services. The remaining 29 per cent were referred to Category A (commercial) services with just over half 'pushed' through to the next available service category.

Figure 4.2

Broadband service coverage in Australia as of January 2010

Note: Category D (satellite) services are typically available in all areas of Australia and are not shown.

Source: Mapping data from DBCDE, image produced by the ANAO.

4.11   The ANAO tested the BSL to assess if the correct category of service had been assigned to registered customers, based on premises location and the coverage maps loaded in the BSL. The testing covered the same random sample of 61 customers used to test the accuracy of plotting premises location. The maps from the BSL were viewed in the third-party mapping software (see Figure 4.2) and the category assigned to each premises by the BSL was compared to that indicated by the maps.

4.12   In 60 cases, the BSL assigned the correct service category based on the broadband service coverage at the time of registration.[88] In one instance, a

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[88]   Of the 60 correctly classified customer registrations, 54 (90 per cent) were assigned the correct category based on the (then) current coverage maps. For the remaining six customers, KIMS records supported that the customer had been 'pushed though' to the next available service category.

customer in a regional township in Victoria who should have had access to a Category A service had been classified incorrectly as being eligible for a Category D (satellite) service. An incentive payment for this customer had been paid by the department.

4.13 The ANAO sought further information regarding the incorrectly classified customer. Following further investigation, the department advised that, for a six month period (5 August 2008 to 4 February 2009) and following a change over between databases, the department had inadvertently omitted 211 ADSL-enabled exchanges from the BSL. The exchanges were located across Australia, generally outside capital cities, and were the last group of telephone exchanges that were upgraded and registered under the ABG program.[89] For the six-month period, customers in these areas were directed by the BSL to a subsidised service, rather than to Category A (commercial) providers.

4.14 The department analysed the impact of the omitted ADSL exchanges and determined that:

- 351 customers received a subsidised connection at a total cost of $875 183; and

- an additional 245 customers held declaration forms on 30 April 2010 referring them to a subsidised service, representing a potential liability of $542 500.

4.15 The department amended the BSL registration status of the 245 customers that had not lodged declaration forms. These customers were required to re-register on the BSL if they wanted to claim a service, at which time they would be provided with updated information about the services they may access.[90] On 11 June 2010, the department also wrote to the 351 customers that had received a subsidised connection, informing them that a wider range of commercial broadband services, including ADSL, may be

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[89] The issue was rectified when the ADSL mapping layer was replaced with an updated, complete set of data.

[90] Access to a metro-comparable broadband service is only assessed by the department when customers first register on the BSL. There is no re-assessment when providers claim incentive payments for connecting those customers. As customer registrations did not have an expiry date, there was a risk that a commercial service may have been available by the time the customer connected. This situation has been addressed for the 2010–11 program, as all customers are required to register on the BSL after 1 July 2010 and have their premises eligibility assessed against updated broadband service coverage data.

available than was previously indicated when they registered on the BSL.[91] The department also decided not to pursue recovery action in respect of the payments made to providers arising from this error.

4.16 The ANAO's testing confirmed that the BSL reliably allocated customers to the correct category. However, the omission of the relevant maps for the 211 ADSL exchanges demonstrates the benefits of having quality assurance processes for data being loaded into the BSL and checking of the quality of data in the BSL. The department advised that the maps supporting the BSL at the start of the 2010–11 program will remain fixed until 30 June 2011.

Step 3: Validation and recording of customer details

4.17 After identifying the broadband services available for their premises, customers wishing to proceed with registration must enter their details into the BSL. The BSL conducts automated data validation of some of the information supplied, and does not allow a customer to register if invalid data is detected. For example, small businesses are required to have between one and 20 full-time equivalent staff and an Australian Business Number that conforms to the standard, while all customer phone numbers must be of a valid length with a valid prefix.

4.18 The ANAO examined the information contained in the BSL database. While the majority of the data did not appear to be invalid, instances were noted where invalid phone numbers had been entered[92], or the State was inconsistent with the postcode. Scope remains for further improving the automated validation of data entered into the BSL. This is particularly important given the reliance on customer data for detecting potential duplicate or fraudulent claims.

Step 4: Declaration of customer eligibility

4.19 Under the program guidelines, eligible customers must be either:

- a residential customer;

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[91] Customers were advised that they did not need to do anything if they were satisfied with their current broadband service, but were also advised about their options and the steps to take if they wished to explore the availability of commercial services or change to a new broadband provider.

[92] In July 2010, the department implemented additional checks for obviously invalid phone numbers with a valid prefix, such as 03 0000 0000 or 04 1234 5678.

- a small business customer with 20 or fewer full-time equivalent staff[93]; or

- an Aboriginal or Torres Strait Islander Community Council (ATSICC).[94]

The majority of ABG customers are residential customers (92 per cent), with small businesses accounting for eight per cent and a small number of ATSICCs.

4.20 Eligibility requirements also apply to the type of premises that will receive the broadband connection. For residential customers, eligible premises must be their sole or principal place of residence, permanent, self-contained, and support independent living. Small businesses are eligible to receive one program service at each place of business.[95] In addition, premises that have previously received a subsidised service under the ABG, or previous programs, are only eligible for a new service if they no longer have access to a metro-comparable broadband service.

4.21 To complete the registration process on the BSL, the customer type must be indicated and the customer must confirm they, and their premises, satisfy the relevant eligibility requirements. The department relies on this declaration as evidence that the customer is an eligible customer type with an eligible premises type.[96] The ANAO noted that declarations were customised for the relevant customer type and appropriately reflected the eligibility requirements in the program guidelines.

4.22 An examination of the database of paid customers identified only a handful of potentially ineligible entities. These organisations were predominantly related to indigenous communities such as indigenous community schools, which are not technically ATSICCs. The department advised the definition of ATSICCs for the 2010–11 ABG program had been broadened to be consistent with the spirit of wider Commonwealth policies on

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[93] Small business must have a unique Australian Business Number and a unique work location. Not-for-profit organisations that meet these requirements are considered eligible.

[94] The guidelines specifically exclude education facilities such as schools, day care centres and other education facilities and government organisations, including local government organisations (with the exception of ATSICCs).

[95] Excluding vacant land; temporary buildings that are not permanently located at a particular location; or storage buildings (such as sheds or barns) that are not the primary place of operation of the business.

[96] The information pack sent out to the customer also includes a declaration form, which repeats the declarations made on the BSL.

addressing indigenous disadvantage.[97] The analysis also identified another seven paid claims (totalling $19 250) subsequently confirmed by DCBDE as ineligible. The department advised that it will investigate whether recovery is appropriate and that revised procedures have been put in place to improve customer records, including rectifying the incorrect classification of customers where necessary.

Step 5: Mail out of customised information pack

4.23 Following a customer's registration, a customised information pack is sent to the customer's postal address on the next business day. The pack contains a covering letter that advises customers of the next steps they need to take to obtain a subsidised broadband service, together with a pre-populated declaration form.[98] The declaration form requires customers to sign and declare their eligibility for an ABG service (confirming declarations made during registration). This form is an important control as providers must submit an electronic copy of the signed customer declaration form for every incentive payment that is claimed.

Post-claim assessment of customer and claim eligibility

4.24 While all customers seeking an ABG service must register on the BSL, having registered, there is no obligation to obtain an ABG service.[99] Of approximately 188 000 customer registrations on the BSL, some 92 000 (49 per cent) have been claimed by service providers. Further, not all claims submitted by providers are ultimately paid by the department (1.5 per cent of claims were declined and 0.5 per cent of claims were recovered after payment).

4.25 Where a customer has contacted a registered provider, received a service and given the provider their signed declaration form, the provider can then claim an incentive payment for that customer. Before paying a service provider, the department assesses the validity of each claim. This process has three main steps, which were examined by the ANAO:

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[97] Section 2.1.3 of the 2010–11 guidelines provides the department discretion to allow other ATSI community organisations to be eligible under the program.

[98] The pack also contains a list of registered providers that can supply a service to the premises and a broadband service checklist.

[99] There could be many reasons why registrants choose not to obtain a subsidised service.

- assessment by the Broadband Customer Online Management System (BCOMS);

- pin movement checking; and

- declaration form checking.

The Broadband Customer Online Management System

4.26   Registered providers are required to submit their claims for connecting eligible customers via the internet using BCOMS, the department's payments processing tool. Each claim must then pass a number of checks, or it is immediately rejected. Claims not immediately rejected undergo further automated checks and are assigned a status of either 'lodged' or 'query' by BCOMS.[100] In addition, claims for higher incentive payments for difficult or remote installations (Level 5 payments) must be pre-approved by the department or they will be automatically declined.

4.27   Claims that are queried are further investigated by the department and where evidence is received that confirms the customer is eligible for a subsidised service, the customer status is changed to 'lodged'. Where registered providers were unable to provide evidence that a queried claim is eligible, the claim is declined. At the conclusion of the post-claim assessment process, invoices for 'lodged' claims are generated in BCOMS and transferred to the department's SAP finance system, which was integrated with BCOMS in July 2009.

Pin movement checking

4.28   The BSL enables customers to move their premises 'pin' during the registration process to allow for and correct possible mapping inaccuracies. However, this facility also creates a risk of illegitimate pin movements in order to become eligible for a subsidised service. In July 2009, the department developed an automated method of extracting pin movement data from the BSL and viewing both the original geocoded location and subsequent pin movement on a third-party mapping application. Departmental staff could

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[100]   The automated checks that result in a 'query' status include: the claim is not a duplicate (based on address or phone number); the customer was connected within 30 days of the original request; and the incentive payment was claimed within 45 days of connecting the customer.

then examine the two locations and form an opinion as to whether the pin movement was legitimate or potentially invalid.[101]

4.29   Departmental officers are able to run a report that identifies, by provider, all pin movements exceeding a specified distance from the original geocoded location. Where suspicious pin movements are identified, the customer's status is changed to 'query' and the provider is contacted and given the opportunity to prove the customer is eligible. Where the department determines the customer is ineligible, the claim is declined.

4.30   For the random sample of 61 premises examined by the ANAO, there were 14 pin movements. Of these premises, one pin movement met the department's criteria for the claim to be queried with the provider.[102] The claim for this customer was declined, consistent with departmental processes. The pin movement querying process is a valuable tool for identifying possible ineligible pin movements. During the audit, the department advised that it had further improved the automatic pin movement query process to detect a broad range of potentially invalid pin movements.[103]

Potentially invalid pin movements

4.31   In August 2009, the department initiated a series of audits of potentially invalid pin movements made since the introduction of the BSL.[104] These audits identified claims worth over $1.1 million, which appeared to be invalid as a result of illegitimate pin movements. The claims had been lodged predominantly by two providers. A small number of similar claims were also lodged by five other providers. In September 2009, the matter was referred to the Australian Federal Police in accordance with the department's fraud control procedures.

4.32   Subsequently, $864 000 was recovered from providers for 408 paid claims that were deemed ineligible. As well, DBCDE declined to pay more

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[101]   The operations manual sets out the criteria a departmental officer is required to consider when making a judgement on pin movements.

[102]   The pin movement was from an exact match for the specified address (with rooftop visible on the satellite image) which had access to a Category A service, to the middle of a distant paddock where only a satellite service was available.

[103]   Including: category changes; movements over State/Territory borders; from exactly matched addresses; and in excess of specified distances from closely matched addresses, a street and town match, or to points offshore.

[104]   Although the capability to examine pin movements was only developed by the department in July 2009, the BSL had been recording customer pin movements since its introduction in August 2007, allowing the department to examine historical pin movements.

than 100 other claims lodged by two providers totalling approximately $262 000. The department advised that, after seeking advice from its legal area, it decided not to inform customers affected by these inappropriate pin movements that they may be able to access a commercial service. This was in contrast with the approach taken by DBCDE in relation to customers affected by the incorrect update of BSL coverage maps. These customers were advised that a wider range of commercial services were now available (see paragraph 4.15).

Declaration form checking

4.33 As previously mentioned, customer declaration forms are included in the information pack sent after registration on the BSL. These forms specify the customer's name, premises address and the service category they are entitled to receive. The form also requires the customer to sign and confirm the declaration of eligibility made during the registration process. When a provider claims an incentive payment for a customer, they are also required to submit an electronic copy of the completed customer declaration form.

4.34 These forms are a key control for the department as they ensure that providers can only claim for customers who have registered on the BSL and had their eligibility assessed. If a provider submits a claim for a customer but is unable to provide a copy of the appropriate, signed declaration form, that claim will be declined by the department. Departmental officers also check that every customer declaration form has not been altered. Where the information does not match the information held by the department, or the form has not been signed or filled in correctly, the claim is queried.[105]

4.35 While customer declaration forms are a key control, manual checking of all claim forms (approximately 2600 per month on average) is time consuming and resource intensive. The 2008-09, 2009-10 and 2010-11 Implementation Strategies all included a 'forward strategy' on the development of an automated assessment tool, which would allow scanned or emailed customer declaration forms to be automatically assessed using character recognition software against BSL and BCOMS data. However, the department advised that the plan to introduce automated character recognition checking had been discontinued some time ago due to the estimated expense,

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[105] Although the operations manual sets out a process for querying and referring issues with customer declaration forms, it does not indicate how these queries are resolved.

poor value and lack of necessity. Given this situation, adopting a risk-based approach to the conduct of manual checks may be more appropriate.[106] However, the department will need to analyse relevant data collected over a reasonable period in order to appropriately inform any risk-based approach.

Conclusion

4.36   Using a combination of automated and manual procedures, the department has established processes that effectively assess the eligibility of customers for ABG services and the subsequent validity of claims for incentive payments made on behalf of eligible customers. Through the use of the BSL, the department has established appropriate processes for checking customer eligibility when registering for an ABG service. The questions asked by the BSL of the customer capture the eligibility criteria as set out in the program guidelines. The use of mapping data to determine customer access to broadband services is an improvement on arrangements in place during predecessor programs, and implements a recommendation from the previous ANAO audit. Despite the reliable performance of the BSL during the ANAO's testing of its mapping functionality, the accidental omission of an important set of maps demonstrates the importance of having quality assurance processes for the input and update of BSL data.

4.37   The post-claim eligibility assessments conducted by the department provide reasonable assurance that registered providers can only claim incentive payments for connecting eligible customers. The pin movement checking process has demonstrated its usefulness through the detection and recovery (or non-payment) of over $1.1 million in potentially fraudulent or invalid claims. The recent improvements to the process, in particular, the automated identification of pin movements that result in category changes, will further enhance the department's eligibility assessment framework.

4.38   Historically, comprehensive manual checking of declaration forms prior to payment has provided some assurance that incentive payments are made only for registered customers. However, considering the scale of the ABG program and other automated checks that are now in place (through the use of the BSL and BCOMS), a risk-based approach to reviewing only a sample of declaration forms could be justified.

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[106]   The most common issue in relation to customer declarations was providers omitting to include a scanned copy of the form when claiming payments.

5. Monitoring and Compliance

This chapter examines the range of monitoring and compliance activities undertaken by DBCDE to gain assurance that the ABG program is operating as intended.

Introduction

5.1 Implementation of an appropriate compliance framework was one of the deliverables listed in the ABG Program Implementation Plan developed during 2007. The ABG compliance framework aims to ensure that payments to registered providers are accurate, accountable and justified. The ANAO examined DCBDE's approach to monitoring compliance with program requirements and dealing with the range of issues that arise, with a focus on the key strategies and compliance activities currently being undertaken.

Compliance framework

5.2 The compliance framework for the ABG program adopts a three-tiered approach based on:

- maximising voluntary compliance—through education and liaison;

- monitoring compliance—through regular processes and specific audits; and

- taking enforcement action—commensurate with the compliance breach.

5.3 The ABG Compliance Matrix is a key element of the framework and the main method of assessing overall program compliance. It comprises an audit risk matrix, compliance table and compliance monitoring table. The aim is for DBCDE staff to use the results to help determine appropriate education, compliance and enforcement action. The ANAO reviewed the main compliance activities undertaken by or on behalf of the department, which include:

- telephone audits;

- regular testing of providers' data speeds and network availability;

- desktop and provider site audits;

- education and liaison activities;

- annual and half-yearly compliance reporting by providers; and

- complaints management.

Telephone audits

5.4   A key component of the ABG compliance framework is the conduct of telephone surveys of ABG customers (known as telephone audits). In conjunction with other compliance-related activities, properly planned, well-designed and diligently-conducted telephone audits can provide DCBDE with reasonable assurance regarding the validity of claims lodged by providers. In particular, contact with ABG customers can confirm their eligibility under the program and that all aspects of the claim have been correctly recorded, as well as capturing direct feedback on any quality of service issues experienced by the customer. The ANAO reviewed DBCDE policies, procedures and records relating to the conduct of telephone audits.

5.5   Telephone audits commenced in late April 2008 and the process was subsequently refined in late September 2009, including deleting a number of less relevant questions from the survey script. Although the primary reason for introducing the audits was to address concerns that claims were lodged by providers prior to a service being connected for the customer, the telephone audits did not seek to obtain details of the actual date of connection. The date that the customer requested the service was also not verified.[107]

5.6   The procedures require that a BCOMS 'Telephone Survey Contact List' Report be run at the start of each month and that five, 10 or 15 customers for each provider be contacted, depending on the number of customers connected. However, there was only minimal compliance with the requirement to run reports each month and the number of telephone audits actually conducted fell well short of the number intended.[108] In addition, the results of the telephone audits were not consistently collated and regularly reported.

5.7   Where records (telephone audit spreadsheets) were available, many of the audits indicated that the customer was not able to be contacted (even after three or more attempts).[109] However, it was not apparent that any follow-up

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[107] This information would have enabled DBCDE to verify that the customer was connected within the required 30 days, or that an extension had been approved by DCBDE prior to claim lodgement date if the connection took more than 30 days. It would also enable the department to verify that the provider's claim for payment was lodged within the required 45 days of connecting the customer to the broadband service.

[108] Although the procedures specified that 130 customers per month would be surveyed (a total of about 3000 for the period up to March 2010) the available records indicated that only a few hundred surveys were undertaken (representing less than 0.25 per cent of claims paid under the program).

[109] For example, 80 per cent of one provider's customers selected for a telephone survey in October 2009 could not be contacted after several attempts, and nearly 40 per cent of customers selected for the telephone survey of small businesses conducted in early 2010 were not contacted.

action had been taken to verify the existence of the customer and that they had received the subsidised broadband service. Also, although it is ABG policy that all contact with customers be recorded in the KIMS database, including where a telephone audit is conducted, examination of DBCDE records indicated that about one-fifth of the telephone audits undertaken in late 2009 and early 2010 had not been recorded in KIMS.

5.8 During the audit, DBCDE revised its framework for conducting telephone audits of ABG customers. The changes were designed to improve: rates of contact with ABG customers; compliance outcomes; and the recording and reporting of outcomes, including by telephoning customers during non-business hours.

Contracted testing of broadband services

5.9 Ensuring that customers continue to receive quality broadband services after providers receive the incentive payment is an important part of compliance monitoring under the ABG program. The program guidelines require that ABG services must meet minimum data speed and network availability standards for a period of three years from the date of connection. The department monitors the quality of these services through an outsourced testing regime and publishes summary results on the ABG website.

Data speed testing requirements

5.10 The program guidelines specifically require that services offered under the program must provide:

> Network Availability 99 per cent of the time (averaged over a quarterly period)[110] with average data download and upload Data Speeds of at least 60 per cent of the specified peak Data Speeds at least 75 per cent[111] of the time as measured in accordance with the Department's Data Speed testing regime, as described in Section 4.6 and set out in detail on the Department's website at *www.dbcde.gov.au/abg*
> (November 2009 ABG guidelines, Section 2.3.1c)

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[110] Although the 99 per cent network availability requirement has existed since the HiBIS program commenced in 2004, round-the-clock network availability testing was not carried out until May 2009.

[111] The data speed requirement was increased for the 2010–11 program (from 75 per cent of the time to 85 per cent of the time).

5.11 Section 4.6 of the guidelines advises that providers must co-operate fully with the department in its conduct of data speed testing, which may include maintaining test computers and undertaking remedial action, where required, to address non-compliant data speeds. The department may suspend funding or terminate the funding deed if systemic failure of data speed testing requirements is not rectified by a provider.

5.12 The guidelines also advise that details of the testing regime are on the ABG website and that it is the provider's responsibility 'to ensure that it is fully aware of its obligations in this respect'. However, at the time of the audit, no further details (beyond those in the guidelines) were posted on the website.[112] DBCDE subsequently advised that it will update the program's website.

Data speed testing contractual arrangements

5.13 The data speed testing regime applied under the ABG program follows on from testing initiated under the HiBIS program in June 2004.[113] The department re-tendered the testing contract three times, with the original contractor winning the tender on each occasion. The most recent contract was entered into in February 2009 and will expire on 30 June 2011.

5.14 The contractual arrangements regarding the coverage and methodology of the data speed testing regime are not prescriptive. The agreed work is variously described as testing of 'the full range of the Programs' Services' or measurement of data speeds on a 'diverse range of broadband technology platforms (wireline, wireless and satellite) for ABG eligible broadband services'. The department advised that the testing carried out meant that one of each provider's popular plans for any of their registered platforms is tested each month. However, DBCDE had not conducted any analysis to identify popular plans for the purposes of determining the appropriate services to be tested. In practice, the department did not instruct the testing contractor regarding the specific service(s) to be tested, rather the

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[112] The department provided the ANAO with copies of the information historically located on the website regarding provider obligations. This information advised providers of the methodology of the data speed test and actions taken upon a failed data speed test.

[113] The actual testing consists of 16 individual upload and download tests of a sample file, at hourly intervals from 7am to 10pm, over one day, run once a month for each service tested.

contractor contacted the provider to set up a test service of a registered service plan nominated by the provider.

5.15   The department provided the contractor with a list of the full range of services offered under the ABG program in November 2007, about three months after the full program commenced. However, the department had advised the contractor that this list was for the purpose of customer data speed testing.[114] Although it could be inferred that the services to be tested under the scheduled monthly data speed testing should be drawn from this list, the department gave no specific instructions for the contractor to do so.

Analysis by the ANAO

5.16   The ANAO analysed monthly data speed test reports[115], the results summary posted on the ABG website and information extracted from BCOMS relating to customer uptake of registered services. The analysis sought to confirm that appropriate testing was carried out, follow-up actions were taken where necessary and the testing was accurately reported to the department and the public (though the website).

5.17   The analysis revealed that most providers passed the data speed testing requirements most of the time.[116] Although there were prolonged periods of consecutive failed tests (up to nine months for one provider), these were typically associated with issues with providing the test service, rather than providing services to customers. In all cases where a provider had failed one or more tests, the provider passed a subsequent test, indicating that remedial action had been taken.[117] However, the ANAO also identified a number of inconsistencies, relating to:

- errors in transcribing results from the test reports (i.e. incorrectly copying a PASS or FAIL);

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[114] That is, self run testing by ABG customers (see paragraph 5.24).

[115] From the commencement of ABG data speed testing in July 2007 to April 2010. While there continued to be a parallel requirement for testing of services subsidised under the Broadband Connect program, this was not the focus of the ANAO testing.

[116] Up to April 2010, approximately 89 per cent of tests were awarded a PASS. One–half of the FAIL results were for unsatisfactory performance. In the remaining cases, the test service was offline and could not be tested.

[117] The only action taken by the department for failed data speed tests was to remind providers of their obligations under their funding deeds.

- the reported testing of service platforms that the relevant providers did not offer under the ABG program[118];

- no testing of service platforms from providers with high numbers of ABG customers connected to those platforms[119];

- testing of service plan speeds that were either not offered or not taken up by any customers under the ABG program; and

- the reporting on the department's website of results against one service platform, while the testing contractor's reports indicated a different service platform was being tested.

5.18   The testing contractor advised the ANAO that, due to typographical errors in a template, some providers were reported as being tested for one platform where another platform was being tested.[120] The ANAO confirmed that:

- in six instances, the platform reported as tested was not the platform actually tested (the duration of these errors ranged from one month to two and a half years); and

- in another seven instances, a registered provider was not being tested for a service delivery platform that it provided.

5.19   The department advised that it would cease the practice of allowing providers to nominate their most popular service for testing and that, for the 2010–11 program, it would require that each provider's registered threshold service on each registered platform be tested. DBCDE also sent the testing contractor a list specifically identifying the provider, platform and service plan speeds to be tested (along with the testing end date).

5.20   A standard quality assurance approach by the department, to ensure appropriate work was being carried out by the testing contractor, would have detected both types of errors. The department accepted that insufficient monitoring of data speed testing was the primary cause of some significant

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[118] For instance, one provider had registered only a satellite service under the ABG program, which was not being tested. Rather, a sample ADSL service was being tested, notwithstanding the provider had not registered any ADSL services under the ABG program.

[119] A provider that had connected many thousands of customers to its registered satellite service and only a handful of customers to its registered wireless service was tested for the wireless service.

[120] For example, a provider of satellite services was reported as being tested for wireless. However, this was a typographical error as the service being tested was satellite.

errors of testing and reporting by the contractor and the department on its website, which it was moving to rectify promptly. Nevertheless, the department considers that some fault lies with its testing contractor not correctly following the (undocumented) directions of DBCDE.

New testing technology

5.21   In late 2009, DCBDE commenced trials of self-contained data speed testing units (known as e-metric devices). In May 2010, these units replaced the test computers maintained by providers for ABG data speed and network availability testing. DCBDE also intends to deploy these units to a sample of customer premises, subject to their agreement, to gain a more accurate indication of the quality of service actually experienced by ABG customers.

Network availability testing

5.22   The program guidelines require that the registered provider network be available 99 per cent of the time, averaged over a quarterly period.[121] Round-the-clock availability testing commenced in May 2009 and is conducted every 15 minutes of every day, covering the same providers as the data speed testing regime. The results from these tests are aggregated by the testing contractor and reported to DCBDE on a monthly basis. However, there was no evidence that DCBDE analysed the results to determine the quarterly average. The department advised that, in future, it would adopt a rolling three-months format for reporting network availability.

5.23   While the majority of providers passed the availability test most of the time, one in every five providers did not perform well. As with the data speed testing, DCBDE has not taken any enforcement action beyond sending notification emails.

User testing by ABG customers

5.24   A useful complement to the scheduled data speed testing is the web-based user-initiated data speed test. This facility allows ABG customers to test the performance of their own broadband service.[122] Users can enter their

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[121] Section 2.3.1 of the ABG program guidelines, November 2009. The availability performance benchmark has been in place since the start of the Transitional Program in April 2007.

[122] Although the user testing first commenced in 2004 under the HiBIS program, it was not until May 2009 that the department began receiving regular monthly reports of all user test results. DBCDE conducts only limited analysis of the aggregate results.

details, including customer ID and email address, and then select their service provider and plan from drop-down lists. The test is then run, downloading and uploading the same test file used in the monthly scheduled testing, and a PASS or FAIL result is displayed.[123] Customers are advised to re-run the test a number of times over different periods if a FAIL result is received.

5.25   The main benefit of the user testing is that it can measure the actual performance of the broadband service being delivered to the end user. In a small number of cases, user test results have provided evidence of sub-standard services, resulting in refunds to DBCDE of the incentive payments made to providers. These customers were also deemed eligible for a new ABG subsidised service.

Compliance audit activities

5.26   In relation to the ABG program, DCBDE conducts a range of in-house compliance audit activities, in addition to on-site audits of providers performed by a contracted firm. Programmed audits are supplemented by ad hoc reviews and special investigations, as necessary, in response to specific concerns of provider non-compliance with program requirements.

5.27   Against a background of significant non-compliance of some providers,[124] a regular program of contracted auditing of provider claims commenced in February 2006 under the Broadband Connect program.[125]

5.28   The earlier ANAO audit suggested that benchmarks be set for acceptable levels of error (that is, the number of errors, such as incorrect claims, allowed by a provider before it is declared a problem area).[126] This has not occurred. Establishing such tolerance levels would improve guidance for

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[123]   The website is at <http://www.abgtest.com.au/>. From May 2009 to February 2010, more than 5000 individual tests were run by around 2200 individual users, with the top 150 users accounting for 50 per cent of all tests run.

[124]   During 2005 and 2006, the department referred three providers to the Australian Federal Police for two alleged occurrences of program fraud. Regular audits of providers' compliance with program requirements was recommended in the HiBIS mid-term review (reported in mid-2005 – see Audit Report 36, p.58). Quarterly audits of providers was also one of the deliverables listed in the ABG Program Implementation Plan approved by the CIU in 2007.

[125]   Audit Report No.36, p.53. Sixteen audits were conducted up to the time that the ANAO report was prepared.

[126]   Ibid., p.54.

ABG staff on the areas of focus when assessing and addressing the results of ABG compliance audits, as well as promoting consistency in approach.

5.29 The 2007–08 provider audit program was approved late in the year (on 3 May 2008) and proposed that ten audits be carried out for that year. Notwithstanding, only five audits were listed in the table of proposed audits.[127] These audits were all rated as High or Medium risk in the Audit Risk Matrix. The explanation for not conducting the audits earlier in the year was that there had been a 'greater focus on addressing outstanding compliance issues, primarily related to the end of Broadband Connect.'

5.30 Draft audit reports for the five audits were provided to the department within two or three weeks of completing the audit fieldwork. Notwithstanding that around this time (June 2008), ABG management agreed to an internal audit recommendation that provider audits be completed on a timely basis, finalisation of the five audit reports took between three and a half months and eight months. DBCDE acknowledged that some audits took too long to complete and that it could have improved the timeliness of report finalisation.

5.31 The audits conducted in mid-2008 would have provided greater assurance to the department of providers' compliance if the actual date of the customer's request for the service and date of connection of the service was verified (rather than just ensuring that the customer was connected and supplied by the time the claim was made, as requested be checked by DCBDE). A subsequent audit (conducted in late 2009) that did examine this aspect found that, for 38 per cent of the sampled claims, the connection date was more than 30 days after the actual request date without an extension approved by DBCDE.

5.32 There was no audit program for 2008–09 and no audits were conducted during that year. The 2009–10 audit program was approved by the ABG Governance and Risk Management Committee in late September 2009. All except two of the scheduled audits and compliance activities were completed during the year. The department advised that these audits were replaced by compliance activities related to pin movements. An unscheduled telephone audit of small business customers was also conducted in early

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[127] In comparison, under the 2006–07 Annual Program, 14 contracted audits were completed in the quarter ended 30 June 2007.

2010.[128] Report finalisation timeframes in 2009–10 have generally shortened compared with those for the 2008 audits, but scope remains for further improvement in this area.[129]

5.33 The audits conducted since the commencement of the ABG program have proved beneficial in verifying provider compliance with program requirements, as well as identifying areas of non-compliance and scope for improved practices and outcomes. However, action taken on the audit findings has not always been clearly documented.

Education and liaison activities

5.34 Maximising voluntary compliance through education and liaison is one of the three inter-related strategies underpinning the ABG compliance framework. Several activities aimed at encouraging providers to be proactive in their compliance and to report and rectify any issues were listed in the framework. However, three planned activities (distribution of a regular online publication to providers, attendance at telecommunications regional roadshows, and conduct of a provider survey) were not conducted. The ANAO recognises that, as the program is relatively mature, and most of the providers have been associated with the program for some time, the costs of undertaking some educational activities may outweigh their anticipated benefits. Nevertheless, where such judgements are made, the activity plan should be updated accordingly.

Annual and half-yearly provider compliance reports

5.35 ABG registered providers are required to meet the compliance reporting obligations set out in the guidelines (Section 4.7) and their deeds. Providers must submit:

- annual compliance reports for the financial year 1 July to 30 June, due by the end of September each year;

- half-yearly compliance reports for the period 1 July to 31 December, due by the end of February each year; and

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[128] This audit was a supplement to the monthly telephone audits, in recognition that very few small businesses were likely to be picked up in the randomly selected samples.

[129] Finalisation of the 2009–10 audit reports took between one month and three and a half months.

- a final report due within 92 calendar days of the end of the term of the deed or within 20 calendar days of the earlier termination of the deed.

5.36 These reports enable DCBDE to monitor providers' ongoing compliance with program requirements and their financial and operational performance. Providers are required to report on their activity in the program, and on the state of their businesses.[130] The ANAO examined the last completed round of annual and half-yearly compliance reports by ABG providers.

Annual compliance reporting by providers

5.37 In August 2009, DCBDE sent the annual compliance reporting instructions for the period ended 30 June 2009 directly to providers, who were required to submit the following documentation by 2 October 2009:

- a compliance report form with information on business performance, claims forecasting, compliance with ABG customer sign-up requirements, service delivery, customer service and service areas, and current ABG terms and conditions;

- a statutory declaration that attests to the truthfulness of the annual compliance report and other compliance matters; and

- audited or reviewed financial statements for 2008–09.

5.38 DBCDE examined the annual compliance reports, and followed up providers who submitted apparently inaccurate or incomplete documentation. For providers seeking an extension of time to complete their annual financial reports, DBCDE set appropriate deadlines. In one case where the provider appeared to have made a genuine mistake in sending a previous year's version of their statutory declaration, DBCDE did not record a compliance breach. However, in a case where a provider sent inaccurate information, a compliance breach was recorded.

5.39 DBCDE analysis of the annual compliance reports uncovered two key compliance issues in service delivery. With one exception, providers had claimed that there had been no changes to agents or agent agreements, but

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[130] Including: continued solvency; any material changes (financial or operational); performance against business plans; reports on customer service issues (for example, complaints to the provider and the Telecommunications Industry Ombudsman); changes in customer numbers and forecasts of likely customer numbers in future years; reconciliation of incentive payments; and any issues associated with the roll-out of services.

DBCDE was aware of changes to agents by several providers during the reporting period. DBCDE also found inconsistencies in the reporting of customer complaints. For example, some providers reported only ABG customer complaints referred to the Telecommunications Industry Ombudsman (TIO), whereas others reported all customer complaints (ABG and non-ABG) referred to the TIO.

Half-yearly compliance reporting by providers

5.40   On completion of the 2008–09 annual compliance reporting round, DBCDE decided to streamline the half-yearly reports, with the aim of only monitoring any changes to providers' processes/activities under the program, and identifying any potential compliance issues. DCBDE also proposed to address the two key compliance issues it had identified in the annual compliance reports by:

- requiring all providers to submit a full list of agents; and

- asking more detailed questions on ABG complaints and the cancellation of ABG services by customers.

5.41   DBCDE provided guidance documents on its website to assist providers with the completion of the half-yearly report for the period ended 31 December 2009. Providers were required to submit the following documentation by 19 March 2010:

- a statutory declaration attesting to a range of compliance information and the truthfulness of the compliance report; and

- a completed compliance report form (that included more comprehensive questions on the providers' agents, ABG complaints and cancellation of services).

5.42   Three providers failed to submit the required documentation on time, and compliance breaches were recorded. The quality of the half-yearly compliance reporting improved on the annual compliance reporting, with the types of errors apparent in the earlier annual compliance reports not repeated. However, a number of providers did not adequately answer a question regarding ABG advertising. Clarification and further information was also sought from two providers whose compliance reports indicated potential problems in areas of customer support and billing accuracy.

5.43   Overall, the department has effective procedures for receiving and assessing annual and half-yearly provider compliance reports and the reports

examined during the audit were actioned appropriately within reasonable timeframes.

Complaints management

5.44 An effective complaints handling system is an essential component of any program with large numbers of customers or beneficiaries. Customer complaints information can provide valuable insights (including early warnings) about provider non-compliance with program requirements. In June 2008, an internal audit recommended that DCBDE develop an analytical model to assess customer satisfaction, including processes for:

- assessing validity of complaints and their categorisation;

- analysing trends over time; and

- using relative numbers rather than absolutes (for example, the number of complaints relative to total number of claims, or connections).

The internal audit also recommended formalising the relationship between the TIO and the department and clarifying what complaints received by the TIO are relevant to the ABG program.[131]

5.45 Up until January 2009, ABG customer satisfaction information was limited to voluntary feedback in a comments section on DCBDE's website.[132] From this time onwards, DBCDE implemented a three-step process for resolving customer complaints:

- **Step one** (level one complaint): the complaint is received by telephone to the ABG call centre. The provider is sent a standard email requesting that the customer be contacted and the issue resolved within 10 working days.

- **Step two** (level two complaint): 12 days after the email was sent, the call centre contacts the customer by telephone to ascertain whether the matter has been resolved to the customer's satisfaction. If not resolved, the complaint is passed on to the Complaints Resolution Group (CRG),

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[131] TIO complaints handling responsibilities include: general contract terms and conditions; billing issues; performance of commercial services other than metro-comparability issues (that is, issues relating to speed, data allowance, cost and reliability that are defined in the program guidelines); and compliance with fair trading laws.

[132] In June 2008, an internal audit of the ABG program found that there was an 'absence of categorisation and classification of queries and complaints collected' from the toll free hotline.

which comprises representatives from ABG compliance and consumer support sections. The provider is contacted, by both email and telephone, offering another five days to address the problem.

- **Step three**: after the five day deadline has passed, if the issue has not been resolved to DCBDE's satisfaction, the CRG can recommend that a credit note be requested from the provider and the customer be eligible for a new subsidy.

5.46 During 2009, DCBDE received an average of 124 new complaints per month. The four most common complaints related to: customers not having a working service; data speed; connectivity; and dropouts. Around three quarters of complaints were resolved within one working day. The remaining complaints progressed through the defined customer complaints process. Typically, a total of between 20 and 50 level one and level two complaints remain open (unresolved) at any one time.

5.47 From the introduction of the complaints handling process in January 2009 up to end May 2010, DCBDE resolved 458 level one complaints, 63 level two complaints and 23 complaints that were referred to the CRG. The outcome for 15 of these latter cases was that DCBDE requested a credit note from the provider and/or determined that the customer was eligible for a new ABG subsidised service.[133] A significant proportion of complaints remained classified as level one (or level two) beyond the specified escalation timeframes. The longest period DCBDE took to resolve a complaint was about six months[134], compared to the timeframe of about three weeks implicit in the complaints resolution process (i.e. 17 working days). The ANAO suggests that internal management reports provide more transparent information on complaint resolution durations and age of unresolved complaints. The number of complaints is small in relation to the total number of paid connections, but has been trending upwards in recent times.

5.48 Better recording of the outcomes of complaints and an increased focus on cases that exceed the target timeframes (including highlighting the age of such cases in management reporting) would further enhance complaints handling.

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[133] There was no recorded outcome for the remaining eight cases in DBCDE's escalated case management spreadsheet.

[134] The October 2009 report stated that one outstanding complaint was received in April 2009. Five complaints reported as resolved in April 2010 originated in January 2010.

Telecommunication Industry Ombudsman

5.49 Quarterly updates on TIO complaints was one of the deliverables listed in the ABG Program Implementation Plan approved by the CIU in 2007. As mentioned earlier, in mid-2008, an internal audit also recommended that DCBDE make better use of TIO complaints information relevant to the ABG program. The TIO data indicate that the most common complaints to that organisation involving ABG providers[135] cover: faults; customer service; complaints handling; and billing and payments issues. Of these, faults typically accounted for between 20 and 40 per cent.

5.50 The department has been slow to act in this regard. For example, the lack of monitoring and analysis of TIO complaints was still an issue when DCBDE's internal evaluation of the program was reported in November 2009. As at August 2010, the relationship between the TIO and DBCDE still had not been formalised, more than two years after the recommendation.[136] Establishing a more formal basis for information sharing between the department and the TIO has recently been included as a 'forward strategy' for 2010–11. The ANAO suggests that DBCDE give priority to formalising this relationship so that TIO complaints data can be analysed and, where necessary, follow-up action taken.

Internal reporting on compliance

5.51 An important and integral part of the compliance framework is regular recording and reporting on provider compliance. Provider compliance history is also one of the factors taken into consideration during re-registration rounds under the program. The ANAO examined the suitability of the ABG compliance recording and reporting arrangements, which include: reports to the Minister and an internal governance committee; maintenance of provider profiles; and DBCDE's plans for more automated reporting.

5.52 Information on the number and type of compliance breaches recorded for each provider has been included in monthly reports to the Minister since

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[135] For example, around six per cent of the 1575 complaints received by the TIO during November 2009 related to services subsidised under the ABG program.

[136] Notwithstanding that ABG management comments provided when Internal Audit followed up implementation of this recommendation in June 2009 stated that: 'We have formalised an information sharing agreement with the TIO to share consumer complaint statistics. We also meet with the TIO at a regular TIO/departmental roundtable meeting.'

September 2009.[137] In addition, the ABG compliance framework provides for monthly reporting to the ABG Governance and Risk Management Committee.

5.53 Although the operations manual states that the regular reporting will include information on connection timeframes and declined claims (two reporting topics requested by the Minister's office), there was no evidence that this has occurred (in either the reports to the Minister or any other ABG reporting). There was also no reporting on the number and duration of extensions granted to providers for connecting customers to their subsidised broadband services.

5.54 As part of the ABG compliance framework, DBCDE maintains provider compliance profiles, which are intended to provide a 'snapshot' of each provider for quick reference by ABG compliance staff. The ANAO examined the profiles and noted that seven were initially developed in May 2009, and updated in July 2009 at the same time that another three profiles were developed. DBCDE compiled another four profiles during the audit.[138]

5.55 Although provider information is kept in various formats in a number of places[139], provider profiles have not been updated in a timely manner, which reduces their usefulness as a compliance monitoring mechanism. The department accepted that revising its profiles to provide an up-to-date summary of providers' operational and compliance history under the ABG program would be a useful compliance tool.

5.56 In late 2009, the department foreshadowed its intention to develop an automated 'dashboard' to provide live reporting using ABG electronic data streams. The aim was to 'better utilise existing data to present a more analytical and longitudinal profile of provider behaviour and types of compliance'. Although the reporting facility was to be progressively implemented by mid-2010, this did not occur. In October 2010, DBCDE advised that 'due to the program's planned termination, it has been decided not to proceed with the development of an automated dashboard'.

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[137] Tables listing providers' data speed test results were included in the reports for a brief period (July and August 2009). The ANAO also made suggestions aimed at removing some duplication, improving the presentation and streamlining the reporting of compliance breaches.

[138] Profiles were not developed for four of the (then 18) currently registered providers, nor previous providers that had ongoing compliance obligations until three years after their last ABG subsidised connection.

[139] For example, BCOMS, the BSL, KIMS, emails, spreadsheets, TAU reports, audit reports, hardcopy files and the department's Information Management System and legacy systems.

5.57 DCBDE has taken steps in the right direction to improve its recording and reporting on compliance issues, albeit relatively late in the life of the program. However, in some instances these intentions were not followed through or have yet to come to fruition. There remains scope for continuing improvement directed towards ensuring that comprehensive, up-to-date and reliable information is readily available, well presented and contextually appropriate. This task should not be overly onerous, given the relatively low number of providers currently registered under the program.

Conclusion

5.58 A compliance framework for the ABG program has been developed which exhibits a number of design strengths. However, some planned compliance activities have been intermittently conducted, while others have been (at least partly) misdirected, or undertaken in a less systematic and thorough manner than intended. Consequently, the level of assurance obtained has been less than optimal, given the overall resources invested to date in the compliance function.

5.59 The department's compliance management framework would be more effective if designated compliance activities are undertaken and there was an improved focus on the quality aspects of the actual conduct of those activities, irrespective of whether they are performed in-house or by contractors. Consolidating the information and insights obtained from conducting compliance activities will inform decisions and improve the subsequent design, mix and conduct of the risk-based compliance activities chosen to be undertaken for the program.

6. Review, Measurement and Reporting of the ABG Program

This chapter examines the periodic review of ABG services and subsidy payments. It also discusses how the department measures and reports the performance of the ABG program, including whether the objectives of the program have been achieved.

Introduction

6.1   In September 2008, the Regional Telecommunications Independent Review Committee concluded that the threshold services available under programs like the ABG would need to be consistently reviewed to ensure they keep pace with service improvements in urban areas. The review recommended that the Australian Government provide interim solutions until the NBN is accessible in regional areas and that the solutions provided should maintain, and improve on, the contemporary comparisons with urban areas.[140] The Government agreed with this recommendation and responded that:

> The broadband services offered under the program are continually monitored so that they continue to provide a metro-comparable option for regional Australians.[141]

6.2   The ANAO examined the periodic reviews of the ABG services and subsidy payments undertaken by the department.

Periodic reviews of ABG service levels and subsidies

6.3   The department advised that it reviews the ABG service levels and subsidies as part of the process of revising the program guidelines. Towards the end of the first year of operation of the program, the department commenced preparing the 2008–09 guidelines. Although these guidelines were intended to apply until 30 June 2012, they were revised in mid-2009 and mid-2010.

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[140]   Regional Telecommunications Independent Review Committee Report, *Framework for the Future*, September 2008, Recommendation 2.2.1 (b).

[141]   Regional Telecommunications Review, *Government Statement of Response*, March 2009.

Reviews of service levels

6.4   The department advised that the ABG threshold service level is determined:

> on the basis of a comparison with metropolitan broadband services most commonly taken up, taking into account other relevant factors, such as the budget funding available, other Government initiatives (e.g. NBN) and competitive commercial service developments (such as [Telstra] Next G). It is not an empirical exercise—it is a policy judgement taking into consideration a range of relevant factors.[142]

6.5   In early May 2008, the department advised the Minister that modelling had been conducted for current broadband services offered across Australia to explore the option of increasing the threshold standard for a metro-comparable service from 512/128 kbps to 1024/256 kbps. The department reported its modelling found that a large number of current services would not meet the higher metro-comparable standard, which would lead to a significant additional number of premises becoming eligible to receive a subsidised service, and therefore draw on program funds in excess of the allocated program budget. The department was unable to provide the ANAO with the analysis that formed the basis of this advice. DBCDE provided 'an example of its modelling', which comprised a spreadsheet with raw data from a limited sample of commercial and ABG broadband service plans.[143] There was no analysis or modelling evident in the spreadsheet and its relationship to the advice provided to the Minister was unclear.

6.6   The department also reviewed the metro-comparability of ABG threshold services. This analysis was reflected in internal discussion papers issued in February 2009 and August 2009. These documents included various ABS, ABG and broadband market data covering advertised peak data speeds, usage allowances and prices, but did not include conclusions or recommendations. The department's August 2009 analysis indicated that, for the price bracket closest to the metro-comparable cap ($69.44 per month), the average metropolitan speed was 17 times faster and the average monthly download allowance was seven times greater than for the ABG threshold

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[142]   DBCDE also advised that, as the ABG program subsidises fixed broadband services, the relevant comparison for determining the threshold service is a DSL-based service.

[143]   The sample covered 156 plans. There are more than 10 000 broadband service plans available commercially in Australia. Source <http://bc.whirlpool.net.au/bc/?action=list> [accessed 24 November 2010].

service. Advice to the Minister in relation to the 2009-10 guidelines proposed that only minor changes be made and did not specifically address whether the service standards had been reviewed.

6.7 Similarly, in February 2010, the department undertook further analysis of the metro-comparability of the ABG threshold service. This analysis was reflected in a spreadsheet comprising raw data on various broadband plans, together with summary tables showing minimum, maximum and average: monthly cost; three-year cost; and data allowances by platform. Again there were no conclusions or recommendations drawn from this analysis.

6.8 The department advised that the discussion papers and spreadsheets were internal working documents used to assist in the preparation of the program guidelines. However, they did not contain any information on services commonly taken up, or provide any insight into how the program budget, or commercial broadband service and infrastructure developments were considered. It was not evident how the internal working documents informed the advice provided to the Minister in relation to proposals to change or retain existing program arrangements.

6.9 On 10 May 2010, the Minister announced 'key changes to the minimum standard of service provided under the ABG' taking effect from 1 July 2010.[144] The minimum service standards for threshold services were doubled at that time.[145] However, the minimum ABG standard of service is the entry level service (not the threshold service), and that has not changed since the program commenced on 2 April 2007.[146]

Reviews of subsidy rates

6.10 Crucial to any program that seeks to deliver its outcomes by paying subsidies, whether to members of the public, or private sector entities, is establishing the appropriate baseline from which to set the subsidy rates and

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[144] Media Release, Senator the Hon Stephen Conroy, Minister for Broadband, Communications and the Digital Economy, *Threshold service speeds to double under the Australian Broadband Guarantee* 10 May 2010.

[145] The minimum download/upload speed was raised from 512/128 kbps to 1024/256 kbps; and the minimum data allowance from three gigabytes to six gigabytes per month. The equipment warranty was also increased from one year to at least three years. The price cap for a threshold service remained unchanged ($2500 including GST over three years).

[146] As previously noted in Chapter 1, there are three categories of ABG services that providers can offer: an entry level service; an added value service; and a threshold service. Providers must offer at least one threshold service and at least one added value service.

periodically reviewing that the dollar amounts paid for each category of subsidy remain appropriate.[147] In the case of the ABG program, this could include taking into consideration any changes in key elements such as: download speeds; data allowances; prices paid; equipment warranties; and other consumer benefits offered by providers, as well as relativities with the service plans offered by commercial ISPs in metropolitan areas of Australia.

6.11 The ANAO sought details from DBCDE in relation to how the quantum of the various subsidies under the ABG program had initially been set, and the timing of any subsequent revalidations undertaken.[148] In June 2010, the department advised that incentive payment settings, are also determined as part of the process of drafting program guidelines and includes input on relevant costs and other detailed technical information held by DCBDE[149], as well as consultation with providers and other stakeholders. However, the department was unable to provide documentation to support the initial setting and subsequent reviews of subsidies.

Conclusion

6.12 Reviews of the program's service levels and subsidies were undertaken as part of the process of revising the program guidelines. However, there was a lack of documentation to support the analysis of broadband services and costs, and any consideration of the other factors the department considered to be relevant in determining service levels and subsidy rates. It is therefore difficult to see how the department conducted these reviews and the underpinning rationale for the recommendations put to the Minister to change (or not change) various elements of the program. The review process does not reflect an evidence-based approach to the provision of policy advice. There is also room for improvement in the analysis that underpins the ministerial advice for this program.

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[147] The mid-term review of the HiBIS program identified that annual pricing reviews would be undertaken, commencing from the first quarter of 2006–07. The ABG Program Implementation Plan also identified that a program review would be undertaken by early 2008 to examine continued appropriateness of incentive levels.

[148] The base subsidy for satellite connections has remained at $2750 (including GST) since commencement of the program. In June 2007, the then Minister was advised that the continued appropriateness of the subsidy levels would be reviewed in early 2008. Revised guidelines issued in August 2008 have enabled payments of up to $6600 to be made for difficult and costly installations, such as in cyclone prone areas.

[149] For example, the department reviewed the subsidy payments for non-standard installations of customer premises equipment during 2009 and identified that the maximum cost for a standard satellite installation was $2100 (excluding GST). This figure is also quoted in the ABG operations manual.

Measuring and reporting the performance of the ABG program

6.13   A department's Portfolio Budget Statements (PBS) and annual reports should provide the Parliament with sufficient information about the actual performance of programs. At the program level, departments are required to report against key performance indicators (KPIs) that demonstrate progress against the program's objectives. The performance of programs, and in particular, progress in achieving planned outcomes is to be reported in the department's annual report.[150] The ANAO examined the KPIs and performance targets set out in the PBS and the results reported in the three annual reports published since the start of the full ABG program.

Program objectives

6.14   The objectives of the ABG program have been expressed in various ways during successive iterations of the program guidelines and are outlined in Table 6.1. These objectives have the similar purpose of providing Australians (particularly those living in regional, rural and remote areas) with access to broadband services that are comparable to services in metropolitan areas.

6.15   The department advised that the objectives of the ABG and its predecessor programs can best be characterised as:

- providing equitable access to broadband services in target areas, in terms of price and functionality. Underpinning this objective is the concept of the metro-comparable service standard, which has been the eligibility benchmark under each program;

- promoting competition among broadband service providers (both those participating in the programs and commercial providers); and

- ensuring the efficient use of public funds by effectively targeting support to areas of need.

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[150]   Department of Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, June 2009, p.2.

Table 6.1

ABG program objectives covering the period from 2007 to 2011

Date of effect	Program objectives
2 April 2007 to 13 August 2007	*Provide access to affordable broadband services for all Australians … by providing financial assistance to Providers registered under the program who provide a broadband service to those customers who cannot otherwise get access to a reasonable level of broadband service … offer eligible customers access to subsidised, price capped broadband with a guaranteed minimum level of service … provide metro-comparable broadband access for residential and small business premises … assist Registered Providers to provide metro-comparable broadband services to residential and small business premises where such access is otherwise not available.*
14 August 2007 to 4 August 2008	*Provide access to affordable metro-comparable broadband services for all Australians… [by offering] … financial assistance to Registered Providers to supply Metro-comparable Services to residential and small business premises where such services would not otherwise be available … offer access to subsidised, price capped broadband with a guaranteed minimum level of service.*
5 August 2008 to 30 June 2010	*Provides all Australian residential and small business premises with access to Metro-comparable Broadband Services by offering financial assistance … to Registered Providers to supply Metro-comparable Broadband Services where such services would not otherwise be available.*
1 July 2010 to 30 June 2011	*Provides eligible Australian residential and small business premises with access to high quality, reasonably priced broadband services by offering financial assistance (in the form of incentive payments) to registered providers to supply program services to eligible premises. The Australian Broadband Guarantee 2010–11 aims to provide a measured and seamless transition to the high speed broadband services that will be made available under the Australian Government's National Broadband Network (NBN) by providing access to subsidised program services while the NBN is being rolled out.*

Source: ABG program guidelines.

6.16   Successive program guidelines, which are approved by the Minister, have defined the meaning of a metro-comparable broadband service. Initially this was a service that provided peak data speeds of at least 512/128 kbps and one gigabyte per month data allowance at a total cost to the customer over three years of no more than $2500 (including GST). The ABG threshold service met the defined standards of a metro-comparable service from 2 April 2007 to 30 June 2010. In August 2008, the data allowance for the threshold service was increased to three gigabytes per month but the speed and cost did not change. On 1 July 2010,

the threshold service was redefined to a higher level than the metro-comparable service standard.[151]

ABG program evaluation

6.17   The department's evaluation unit conducted a performance review of the program in the second half of 2009. The review noted that the ABG program is generally delivering against its key objective of facilitating sustainable access to metro-comparable broadband services where such services are not otherwise available. It also analysed the measures underlying each KPI, and made recommendations to improve the program's performance reporting (see Appendix 3). These included, amongst other things:

- reviewing and refining the KPIs and associated key metrics and underpinning definitions of key terms to ensure these enable effective measurement of the performance of the program; and

- defining what constitutes success for each KPI and linking these to key metrics for each KPI.[152]

6.18   In December 2009, the department's Performance Reporting Committee (PRC) noted the review report and accepted all recommendations, which were to be implemented by late February 2010.

6.19   An internal audit of the ABG program conducted in June 2008 also raised the importance of implementing more quantitative measures for the success criteria outlined in the program's Implementation Plan[153] (outlined in paragraph 2.2 in Chapter 2).

Key performance indicators and targets for the program

6.20   There has been a different set of KPIs for each year of the program and these are outlined in Table 6.2.[154] In mid-2008, the department developed a new

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[151]   Access to the internet at peak download/upload data speed of at least 1024/256 kbps and at least six gigabytes per month data allowance (of which at least three gigabytes must be offered during peak periods and at least three gigabytes during off-peak periods) at a total cost to the customer over three years of no more than $2500 (including GST).

[152]   Performance Review of the Australian Broadband Guarantee Program, Review by the Evaluation Unit, Parliamentary Support, Corporate Strategy and Governance, November 2009.

[153]   Internal Audit Review of the Australian Broadband Guarantee Program, Protiviti, June 2008.

[154]   In addition, the 2007–08 KPIs in the PBS were amended in the 2007–08 Portfolio Additional Estimates Statements (PAES) to: Effectiveness: Broadband coverage is available to areas not serviced under the OPEL network; and Quantity: number of premises outside of Broadband Connect Infrastructure areas with improved access to broadband services. These were changed again by the time of the department's 2007–08 Annual Report because the indicators: 'were linked to a program which the Department no longer administers'.

set of metrics based on the KPIs in the 2008–09 PBS (outlined in Appendix 5). These were intended to apply for the life of the program (that is, to 30 June 2012) but were replaced with a single KPI in the 2009–10 PBS. This KPI was replaced by two new KPIs in the 2010–11 PBS.

Table 6.2

ABG performance indicators in Portfolio Budget Statements 2007–08 to 2010–11

PBS	Key performance information
2007–08	Number of premises outside of Broadband Connect Infrastructure areas with improved access to broadband services. Number of people in target area benefiting.
2008–09	Equitable broadband coverage through the Australian Broadband Guarantee to areas not serviced by the National Broadband Network. Performance targets: Multiple service providers registered offering competitive services to under-served areas; Services offered are comparable to metropolitan areas of Australia; Consumers across rural and remote Australia are broadly aware of the ABG services; and Take-up of services is consistent with general consumer demand for broadband.
2009–10	Take-up of broadband services in regional Australia, particularly in areas where there are no terrestrial wireless broadband services. Performance target: 22 750 connections (revised to 30 400 connections in Portfolio Additional Estimates Statement).
2010–11	Administering the ABG which has been used by the Government to complement the NBN by subsidising access to metro-comparable broadband where not otherwise available. Developing enhancements to the ABG, which from 1 July 2010 will focus the program on the two per cent of premises in Australia which are in greatest need of support in accessing adequate broadband services; doubling the service speed and data allowances supported by the program; and providing remote and regional communities with a transition path towards the NBN. Performance target: 13 700 connections.

Source: Portfolio Budget Statements and Portfolio Additional Estimates Statements 2007–08 to 2010–11.

6.21   KPIs may evolve over the life of a program. They may be broadened or refined to better reflect the extent to which a program is achieving its objectives. However, to be useful, KPIs need to maintain at least a core consistency and continuity. When KPIs are continually changed, the program's performance over time is not easily assessed. The department acknowledged that frequent changes to the program's KPIs was not desirable.

6.22 Ideally, the performance information set out in the department's PBS would also have included targets for the program, which may be quantitative (numerical) or qualitative (descriptive), but must be verifiable.[155] The KPIs in the PBS did not include any numerics for the quantitative targets identified for the ABG program until 2009–10, when the target number of ABG connections for that year was reported.

Reporting program performance

6.23 The ANAO reviewed the department's annual reporting for the three years of the program. Generally, the department did not report program performance against the KPIs and performance targets set out in its PBS. Further, the performance information that was reported could not always be substantiated or reconciled with data held by the department, and other sources. Key aspects of the program's performance, such as service level data speeds, data allowances and costs were also not regularly reported.

Performance reporting for 2007–08

6.24 Results were reported against six KPIs in the 2007–08 annual report (outlined in Appendix 4). As previously mentioned, these were not the same as the KPIs reported in the PBS and Portfolio Additional Estimates Statements.

6.25 As the KPIs were largely activity measures, the reported results included the number of: connections; information packs sent to BSL-registered consumers; and complaints received by the department. These measures may be useful when viewed over time, but most were not continued in subsequent annual reports. Moreover, they need to be reported in context to be meaningful, and against a benchmark or target to give the reader some idea of what success would be. For example, the number of connections would be more informative if reported in the context of the total number of underserved premises, and the target number of connections for the program.

Performance reporting for 2008–09

6.26 The results reported in the 2008–09 annual report were against the same KPI and the performance targets in the PBS (outlined in Appendix 5). The performance information reported for each target was reviewed. Where

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[155]   Requirements for Departmental Annual Reports. Op cit. p.3, 18.

performance information was not reported, the ANAO has analysed available ABG and ABS data to comment on the program's performance against that target.

Performance target: Services offered are comparable to metropolitan areas of Australia

6.27 Reporting the comparability of ABG services offered with metropolitan services would need to include, as a minimum, the number of connections for each service level, service standards offered and any changes, and the cost of each service. This information was not reported in the annual report.

Connections by service level

6.28 Total connections of 36 671 were reported, however, these were not disaggregated by service level. The ANAO's analysis of DBCDE data noted that there were 27 893 (77 per cent) entry level, 6119 (17 per cent) threshold level, and 2064 (six per cent) added value connections. For the additional 595 connections reported by the department, 246 connections could not be readily classified and the remaining 349 could not be reconciled to the department's data.

Service standards offered

6.29 DBCDE advised that the ABG threshold speed standard has always been 'based on the commercial metropolitan services most commonly taken up, not average speeds available, which are not necessarily representative of market demand'. The department has not been able to provide data on the commercial broadband services most commonly taken up in metropolitan areas of Australia. To compare ABG services, the ANAO has used ABS data.[156]

6.30 There has been a six-fold increase in the minimum data allowance, but little improvement in the minimum download speed for ABG threshold services.[157] Added value services have also increased to remain above threshold service standards. The minimum service standard for ABG entry level services has not changed over the life of the program and was set at the same level as the previous threshold service under the ABG's predecessor programs.[158] The comparative trends with ABG service standards are shown in

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[156] The ABS Internet Activity Survey is the main source of statistical data on the use of Australian broadband services. It includes download speeds and the total data downloaded by all subscribers to the major internet service providers.

[157] Including the recent doubling of the threshold service data allowance and speed from 1 July 2010.

[158] Access to the internet at a peak download/upload data speed of at least 256/64 kbps and at least 500 MB per month data allowance, at a price to the customer over three years that is appropriately discounted below the threshold price cap ($2500 including GST) and that appropriately takes into account the speed and functionality of the service and incentive payment applying to the service.

Figure 6.1 and Figure 6.2 and illustrate how the standard of Australian broadband services has improved over time.
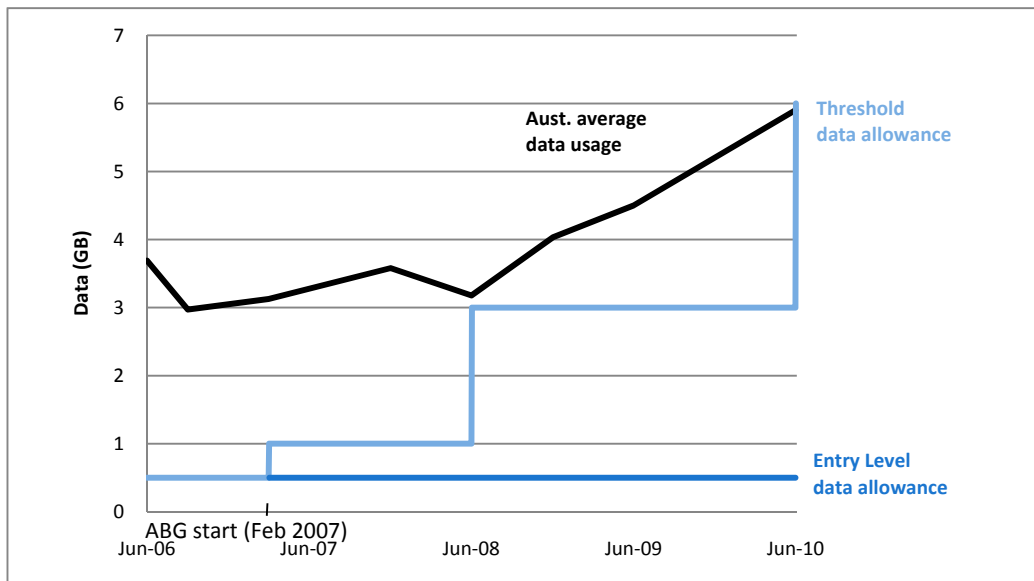
Figure 6.1

Trends in Australian broadband download speed and ABG service standards
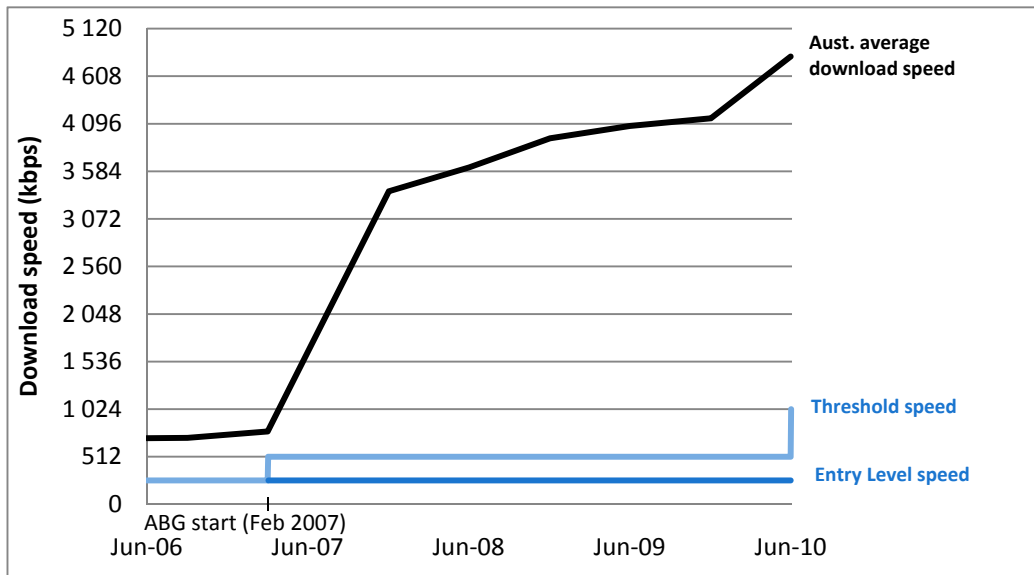
Figure 6.2

Trends in Australian data usage and ABG service standards

Costs of services offered

6.31   ABG customers are free to choose their preferred service level, and the majority has chosen to connect to the cheaper, lower-level services offered by entry level service plans. The ANAO examined the average monthly cost to ABG customers by service level compared to the broadband services offered for similar prices in metropolitan areas. The ANAO calculated the average cost and data allowance for ABG service plans connected from 2 April 2007 to 30 June 2010. Data on the broadband service plans offered in metropolitan areas was drawn from annual industry surveys conducted in January to early February in 2008, 2009 and 2010. The results are presented in Table 6.3 and indicate that ABG services are considerably more expensive than metropolitan services for the equivalent data allowance. There may be a range of factors that contribute to this situation, including relativities in prices paid by consumers for their broadband services and the varying demand for these services.

Table 6.3

Average monthly costs and data limits for ABG and metropolitan market broadband service plans

Service level	ABG		Metropolitan*	
	Cost per month	Data per month	Cost per month	Data per month
Entry level	$36.55	1.0 GB	$30.22	2.3 GB
Threshold	$46.12	3.6 GB	$47.43	17.3 GB
Added value	$107.20	5.4 GB	$108.56	63.8 GB
Note: *Based on a survey of 62 plans offered by 28 providers.				

Source: ANAO analysis of ABG and industry data.

ABG program information reported in 2008–09 on comparability of ABG services

6.32   Supplementary information about the ABG program was included in the 2008–09 annual report, which noted that:

> The Australian Bureau of Statistics Internet Activity Survey for the December 2008 quarter shows that the speed and download standards for Australian Broadband Guarantee services are broadly comparable to the most widely taken up broadband services across Australia. A significant number of broadband subscribers generally are connecting to services with speeds

between 256 kbps and 1500 kbps (clearly trending towards higher speed services), with the average monthly data usage per subscriber being 4 GB per month.[159]

6.33 This information does allow some comparison of ABG services with metropolitan services. However, it would be more useful to the reader (and the Parliament) if it was put in the context of reporting trends over time, rather than at a point in time.[160] Within this context and using the ABS Internet Activity Survey series referred to in the department's report, the ANAO analysed the trends in Australian broadband speeds and data allowances as well as those for service plans connected by ABG customers across the period of the program (from 2 April 2007 to 30 June 2010).

Data speed

6.34 As at December 2008: the majority of Australian broadband subscribers (55 per cent) had connected to services with speeds greater than 1500 kbps; and 45 per cent had connected to services with speeds between 256 kbps and 1500 kbps. The ABS data does not support the department's statement that a significant number of broadband subscribers at that time were connecting to services with speeds between 256 kbps and 1500 kbps.[161] Detailed analyses of the trends in broadband speeds are outlined in Appendix 6.

Data allowance

6.35 The trends in average Australian data usage compared to the maximum data allowance for ABG service plans connected under the program are shown in Figure 6.3. The average Australian data usage per month shows a strong upward trend. The data allowance for service plans connected under the ABG program has increased at a much slower rate. From April 2007 to June 2010, the average data usage for Australian broadband customers rose from 3.2 GB per month to 5.9 GB per month. In June 2010, the average maximum data allowance for ABG customers was 1.9 GB per month.

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[159] DBCDE Annual Report 2008–09, p.34.

[160] Such an approach would be in line with the Requirements for Annual Reports issued by the Department of the Prime Minister and Cabinet, and Recommendation No.2 of the department's 2009 performance review of the ABG program (outlined in Appendix 3).

[161] From the start of the program to June 2010, the proportion of Australian broadband customers with a download speed greater than 1500 kbps rose from 36 per cent to 77 per cent. In contrast, in June 2010, the proportion of ABG customers with a download speed greater than 1500 kbps was nine per cent.

Figure 6.3

Trends in Australian data usage and ABG maximum data allowance
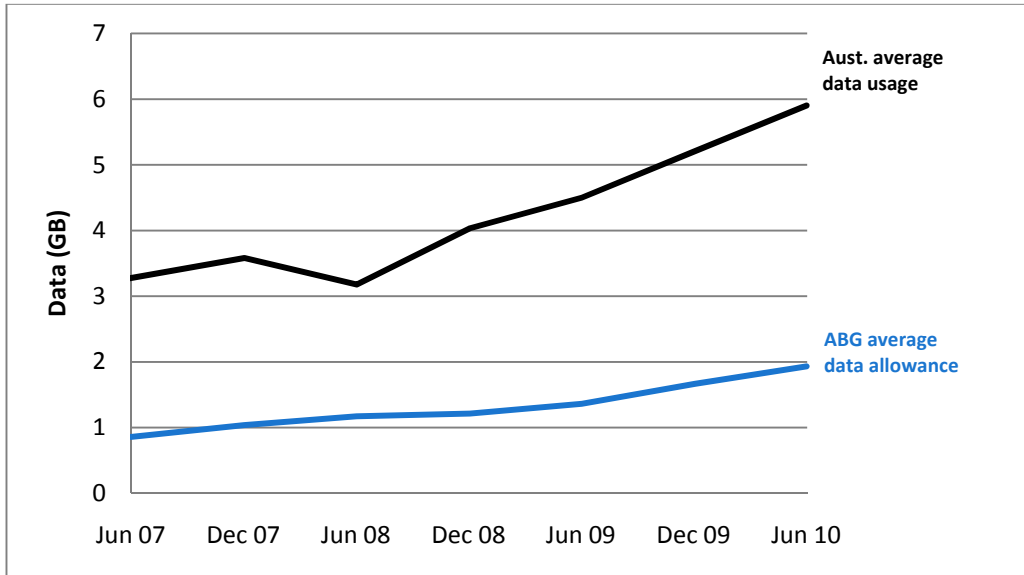
Source: ANAO analysis of ABS and ABG data.

6.36   The department was unable to provide the relevant data to support its statement in the annual report that the speed and download standards for ABG services are broadly comparable to the most widely taken up broadband services across Australia. The ANAO's analysis of ABG and ABS data in relation to this performance target (*services offered are comparable to metropolitan areas of Australia*) would suggest that the ABG service standards for speed have generally not kept pace with Australian trends. In contrast, the ABG threshold service data allowance has increased, bringing it into closer alignment with the average Australian data usage.

Testing of providers' services

6.37   The testing of providers' data speeds was also reported under the performance target relating to the ABG services offered. The department was unable to demonstrate that 91.6 per cent of registered providers' services passed independent data-speed testing (as reported for the second target) because the technical testing regime generally tested only one service per provider and, in some cases, this service was not an ABG service.[162]

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[162]   As discussed in paragraphs 5.16 - 5.20.

It would also have been more informative if the department had advised readers that the testing results reported included seven providers that were no longer registered under the program.[163]

Performance target: Consumer awareness of ABG services

6.38   Around half the results reported in the 2008–09 annual report were attributed to an independent survey commissioned by the department to inform its management of the ABG program. It aimed to better understand the awareness of, and demand for, the ABG (and broadband services more generally) in regional and remote Australia.[164] The response rate for the survey was 26 per cent.

6.39   The consultants identified that there was a discrepancy between their estimated internet take-up rate, and that estimated by the ABS. The ABG survey found an internet take-up rate of 83 per cent for households[165], whereas the ABS estimated that the internet take-up rate for non-metropolitan households at the time of the ABG survey was around 65 per cent.[166] The consultants identified a potential sampling error[167] and reported that their estimated internet take-up rate should be interpreted with caution. The survey responses were reweighted by assuming that ABG households had the same internet take-up rate as the ABS households.

6.40   In relation to the performance target for consumer awareness of ABG services, the survey found that only three per cent of residential respondents and five per cent of small businesses recalled the name of the ABG program. When prompted, just over one-third of respondents were aware of the ABG. The survey reported that 49 per cent of non-metropolitan households and 44 per cent of small businesses had 'heard something' about the Australian Government providing subsidies to ISPs to reduce the cost of broadband internet access for people and small businesses in regional and remote areas.

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[163]   The department advised that 'the seven providers no longer registered under the program were still offering services under their three year contractual obligations'.

[164]   The consultants conducted a telephone survey of households and small businesses in non-metropolitan areas as defined by the ABG program. These areas included some 2.6 million households and small businesses, whereas the number of ABG underserved premises at that time was less than 700 000.

[165]   The ABG survey also found an internet take-up rate of 93 per cent for small businesses.

[166]   Based on 61 per cent reported by ABS for 2007–08 and adjusted to reflect estimated changes up to the time the ABG survey was conducted in early 2009.

[167]   It was possible that people who already had access to the internet or broadband were more likely to participate in the survey than those who did not have access.

The survey concluded that awareness of the ABG among residential households and small businesses in non-metropolitan Australia 'is currently at a low level.' In reporting the percentages of households and small businesses as 'broadly aware' of the ABG services, the department did not properly reflect the survey results.

6.41 The results reported for the number of calls received by the helpline and the number of information packs mailed out did not reconcile with the records held in departmental databases. The number of calls received by the helpline was overstated and the number of information packs mailed out by the department was understated.[168] However, unlike in 2007–08, the department did not report the number of complaints received, which the ANAO calculated had increased by 78 per cent on the previous year.[169] The department advised that this increase occurred at the time it was developing and promoting the Consumer Support Section and the freecall 1800 number, and that the number of complaints in 2008–09 relates to a larger pool of ABG customers.

Performance target: Take-up of services consistent with general consumer demand for broadband

6.42 DBCDE advised that it could not measure its 2008–09 performance target and 2009–10 KPI relating to the take-up of broadband services, because the ABG target coverage area is dynamic and the department has a lack of knowledge of take-up of commercial services.

6.43 A measure of program effectiveness that the department could use (and already measures), in relation to providing access to broadband services, is the reduction in the number of underserved premises.

Number of underserved premises

6.44 Currently, the department measures (as illustrated in Figure 6.4) the number of underserved premises by using mapping data about the areas covered/not covered by commercial broadband services and location data on premises that have been connected with ABG-subsidised services. However, it does not report trends over time or those reductions that can be attributed to the ABG program.

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[168] Database information indicated that 28 259 calls were received by the helpline and 71 697 information packs were mailed out by the department.

[169] There were 784 complaints in 2007–08 and 1394 complaints in 2008–09.

Figure 6.4

Estimated underserved premises and ABG connections 2007 to 2010
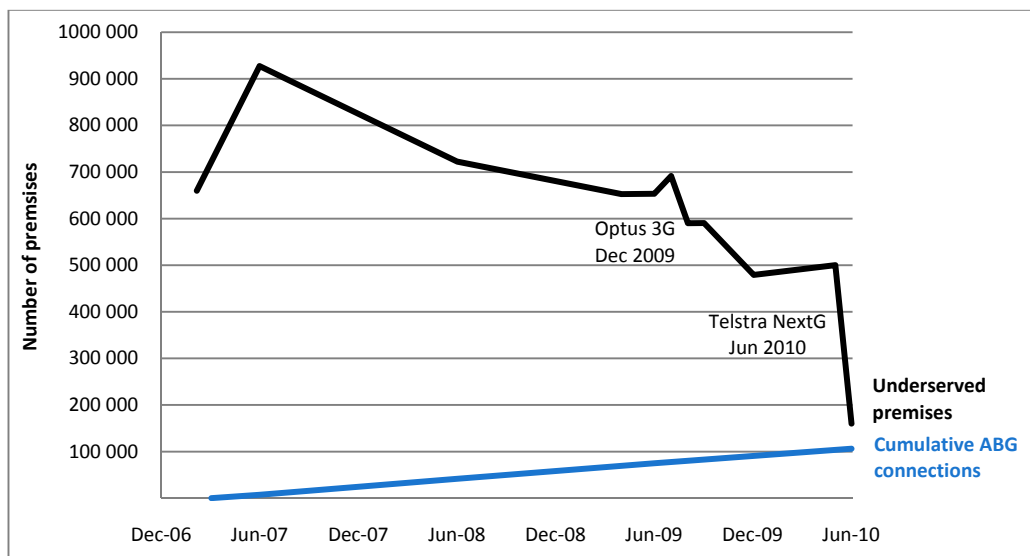
Source: ANAO analysis of DBCDE information.

6.45   Figure 6.4 shows that, over the three years to June 2010, there has been a more than five-fold decline in the number of underserved premises (from 925 000 to 160 000). The department advised that the reduction in the pool of underserved premises was primarily due to the roll-out of commercial wireless broadband networks, rather than as a result of the number of connections provided through the ABG program. The department sees this reduction as a positive outcome for the program as it considers the program encourages commercial expansion through the targeting of subsidies. Recent changes in terrestrial broadband coverage areas are illustrated in Appendix 7. Some 70 per cent of the premises that received a subsidised connection under the ABG program between 2 April 2007 and 30 June 2010 were in areas where a commercial broadband service had become available by 1 July 2010.[170]

ABG survey findings on broadband take-up

6.46   The department also reported for this performance target that the ABG survey 'found that about 55 per cent of non-metropolitan households had a broadband service, broadly consistent with metropolitan take-up', without

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[170]   The department advised that, of 103 272 existing connections under the ABG program, 31 475 were for premises in areas that would be eligible under the 2010–11 program.

explaining the limitations of the survey methodology used to generate this estimate (and discussed in paragraph 6.39). In addition, the level of broadband take-up by metropolitan households at that time was 66 per cent.[171]

Reporting program performance for 2009–10 and 2010–11

6.47 Performance information on the ABG program in the 2009–10 annual report covered program expenditure, the total number of subsidised connections and the proportion represented by satellite connections. The target number of connections for the year was not reported.

6.48 The new 2010-11 KPIs, (which refer to: *administering the ABG* and *developing enhancements to the ABG*), do not reflect the recommendations put forward by the 2009 performance review (and discussed in paragraphs 6.17-6.18). Implementing these recommendations will enable the department to better assess and report whether the objectives of the ABG (or any future) program are being achieved. The department acknowledged that the quality of indicators could be improved and maintained over the life of the program.

Conclusion

6.49 The ABG program provides access to broadband services for Australians in regional, rural and remote areas. However, the performance information reported for the ABG program for the period 2007–2010 is largely activity-based and does not allow an assessment of the extent to which the achievement of outcomes can be attributed to the program's intervention.

6.50 The department has not clearly reported against its KPIs and performance targets on the broadband services offered, and taken up, under the program and how they compare with services offered in metropolitan areas.

6.51 The minimum data allowance for ABG threshold services has been increased twice, bringing it into closer alignment with the Australian average data downloaded per month, but there has been little improvement in the minimum download speed. Added value services have also increased to remain above threshold services. The minimum standards for entry level services, which are taken up by three out of every four ABG customers, have

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[171] ABS Catalogue 8146.0 *Household Use of Information Technology, Australia, 2008–09*.

not changed over the life of the program. On average, prices paid by ABG customers, while lower than would have been paid without the subsidy, have exceeded the prices paid for equivalent broadband services (in terms of speed and data allowances) in metropolitan areas. The ANAO recognises that the policy settings for the ABG program are matters for the Australian Government to determine, based on advice from its department and any other sources.

6.52   The results reported across the period 2007–08 to 2009–10 provided limited or no information on the: number of underserved premises; type of services and their take-up levels; quality of the services; cost of the service[172]; type of customer; or the percentage of ABG providers that did not comply with the department's data speed and network availability requirements. There is little information on trends over time. This type of information would improve the transparency of the operation of the ABG (and any future broadband) program, better inform management and policy decision-making, and provide context for the environment in which the program is operating.

6.53   In addition, several of the reported results could not be reconciled with information held by the department and ABS data. The 2010–11 KPIs also do not reflect the improvements recommended in the department's 2009 performance review of the ABG program.

Recommendation No.1

6.54   To improve the measurement of program performance and the transparency of reporting of the Australian Broadband Guarantee program (and any future broadband programs), the ANAO recommends that the Department of Broadband, Communications and the Digital Economy:

(a)   develop key performance indicators, associated metrics and targets to enable program performance to be reliably measured over time; and

(b)   accurately report on results achieved by the program.

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[172]   One of the 'direct benefits' of the ABG program identified in the 2007 Program Implementation Plan was lower monthly broadband service costs for ABG customers.

DBCDE Response

6.55 The department accepts the ANAO's recommendation, but notes that the ABG program will terminate at the end of 2010–11. The department will take the ANAO's recommendation into account for any future broadband programs.

Ian McPhee

Auditor-General

Canberra ACT

15 February 2011

Appendices

Appendix 1:   Departmental responses

Australian Government

Department of Broadband, Communications and the Digital Economy

FAXED

our reference 2010/9674

Peter Harris

Secretary

Mr Matt Cahill
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
19 National Circuit
BARTON ACT 2600

Fax: 6203 7777

Dear Mr Cahill

Performance Audit – Management of the Australian Broadband Guarantee Program

I refer to your letter of 20 December 2010 attaching the proposed performance audit report for the Australian Broadband Guarantee program, and seeking agency comments by 28 January 2011.

In response to your request, please see attached our formal comments on the proposed report, together with a short summary of those comments. The First Assistant Secretary, Networks Policy and Regulation Division, Ms Spence will be forwarding more detailed editorial comments and suggestions separately.

Please advise in due course whether any substantive amendments are to be made to the proposed report prior to tabling in Parliament.

Yours sincerely

Peter Harris
January 2011

38 Sydney Avenue, Forrest, Canberra ACT 2603 Australia • telephone 02 6271 1872 • facsimile 02 6271 1077
website http://www.dbcde.gov.au

DEPARTMENT OF BROADBAND, COMMUNICATIONS AND THE DIGITAL ECONOMY

FORMAL COMMENTS ON PROPOSED PERFORMANCE AUDIT REPORT RE MANAGEMENT OF THE AUSTRALIAN BROADBAND GUARANTEE PROGRAM

1.   Overall, the Department of Broadband, Communications and the Digital Economy (the department) accepts the analysis and findings set out in the first five chapters of the ANAO's audit report on the management of the Australian Broadband Guarantee Program (the program) as a fair and constructive assessment of the program's performance and the department's management of the program. However, the department considers that, in addition to the detailed commentary on specific compliance strategies and processes, Chapter 5 - *Monitoring and Compliance*, should acknowledge that the program's compliance regime has been effective and that where breaches have been identified, appropriate action has been taken, and all monies recovered where necessary.

2.   The department remains concerned that Chapter 6 – *Review, Measurement and Reporting of the ABG Program* does not accurately reflect the context in which the program operates, or the nature of the program itself.

3.   The ABG program is demand driven and budget capped with a primary objective of providing Australian residential and small business premises with access to broadband services in locations where such services are not commercially available. It is intended to complement the commercial rollout of services in rural and remote areas, by carefully targeting Government financial support to premises where adequate commercial broadband services are not available.

4.   Determining what service is subsidised will – in circumstances as in this case where the market is the dominant provider – provide disincentives for the expansion of commercially-provided services if not carefully targeted. More recently, the advent of the NBN as Government policy has added to the need to ensure that subsidised services are not ramped up without considering future outcomes. While the ANAO notes that the program is complementary to the NBN

(refer paragraph 8), it ignores the obvious consequential impact of the NBN investment on these program settings. Since November 2007 the program has necessarily had to consider the nature of a complementary and transitional role pending the rollout of the NBN.

5.   Against this background, the government has determined, as a matter of policy, the definition of a metro-comparable service, which sets the benchmark for determining eligible premises under the program.

6.   The department has a number of other concerns with Chapter 6:

a.   the chapter does not recognise that only the mandatory threshold service is price-capped against the metro-comparable standard. The price of entry level services and added value services are not required to be metro-comparable but only to take appropriate account of incentive payments (e.g. 2.3.2(b) and 2.3.3 of the 2008 Guidelines). This is in recognition of the fact that the application of a standard incentive payment may not be sufficient to provide metro-comparable prices across all service plans, particularly for added value services, because of the high cost structures applying to rural technology platforms such as satellite. This means that the analysis in paragraphs 6.31-6.33, and Table 6.3, is inaccurate and in our view irrelevant.

b.   while noting that entry level services are made available to give customers choice, and that most customers choose these cheaper services (paragraph 6.31), the chapter nevertheless comments (paragraph 6.30) that the minimum standard for entry level services has not changed over time. Raising the minimum entry level standard without major funding improvement would either allow for fewer services to be supported or reduce customer choice in a popular part of the market. DBCDE again advises the ANAO that mandatory higher minimum speed and data allowances must mean higher minimum prices for consumers, cet par; and

c. the chapter confuses <u>average available</u> metropolitan speed and data usage with the speed and data allowances of <u>most commonly taken up</u> services (for example, Figures 6.1 and in particular paragraph 6.6). The average speed and data allowance <u>available</u> in metropolitan areas is irrelevant to the program's objectives and service settings, if people don't take it up. It is what consumers experience in metro regions that matters, not what they could buy but don't. Thus judgement here should consider the ABG threshold metro-comparable service standard against the most popular (i.e. most commonly taken up) services in metropolitan markets, and the average data allowance of services taken up across Australia, taking into account incentive and future investment issues (e.g. NBN) as noted above. To adopt <u>average available</u> metropolitan service and data allowance levels as a benchmark is the ANAO re-writing the policy, a matter in our view for Government.

Australian Government

**Department of Broadband,
Communications and the Digital Economy**

Mr Matt Cahill
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
19 National Circuit
BARTON ACT 2600

Dear Mr Cahill

Performance Audit – Management of the Australian Broadband Guarantee Program

Further to Mr Peter Harris's letter to you of 20 January 2011, set out below is the
Department's formal response to the ANAO's recommendation in relation to the
Performance Audit of the Management of the Australian Program.

"The Department accepts the ANAO's recommendation, but notes that the ABG program
will terminate at the end of 2010-11, and will take the ANAO's recommendation into
account for any future broadband programs."

Yours sincerely

Daryl Quinlivan
Deputy Secretary
Infrastructure Group

20 January 2011

Appendix 2: Departmental reviews and evaluations

The department has conducted several reviews, evaluations and audits of the ABG since the start of the program (see Table A1), which have been referred to in this report, where relevant.

Table A1

ABG program reviews, audits and evaluations

Title	Type	Date
Review of budgeting and forecasting for ABG	Internal audit	13 May 2008
Internal audit review of the ABG program	Internal audit	1 Jun 2008
Strategic Compliance Framework for ABG	Review	Sep 2008
ABG baseline research report	Survey	Apr 2009 Addendum Jul 2009
Quality Assurance on ABG interface to SAP project	QA review	23 Jun 2009
Review of ABG forecasting and development of a forecasting model	Internal review	Sep 2009
Quality Assurance on ABG automation of upfront payments	QA review	23 Oct 2009
Performance Review of the ABG program	Evaluation	Nov 2009
High level evaluation of ABG IT systems	Internal review	2 Nov 09
Additional analysis of the DBCDE annual client service survey 2009 ABG	Survey analysis	Jan 2010
ABG compliance breaches	Internal audit	Feb 2010

Source: DBCDE information.

Appendix 3: Performance review of the ABG program

Program recommendations[173]

The review recommended that the program take steps to:

1. Review and refine the ABG KPIs and associated key metrics and underpinning definitions of key terms to ensure these enable effective measurement of the performance of the program and are owned by Program management. This review should take account of relevant comments made in the body of this report relating to improving KPIs.

2. Test the feasibility of developing a graph of user access speed and user cost in order to monitor variations in the take-up of services between ABG and metro-comparable customers. This would assist to demonstrate the impact of ABG on closing the take-up gap between these categories of users.

3. Undertake a process (e.g. an annual survey) for regularly tracking target client intention to adopt broadband and their awareness of ABG (or more generally the availability of Government financial support for broadband take-up).

4. Commission the Annual Client Service Survey provider to generate results specific to ABG customers from the surveys conducted in 2009 and, if possible, 2008.

5. Ensure monitoring and analysis of customer feedback draws on all sources, including but not limited to Ministerials, the Department's website and the Telecommunications Industry Ombudsman, to improve tracking of client satisfaction levels.

6. Measure program administration cost as a percentage of administered funding and use this as an additional key metric to assist in the measurement of the efficiency of the ABG Program as referred to in KPI 5.

7. Define what constitutes success for each KPI and link these to key metrics for each KPI.

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[173] Review by the Evaluation Unit, Parliamentary Support, Corporate Strategy and Governance, November 2009, *Performance Review of the Australian Broadband Guarantee Program (Main Body of Report)*, p.12.

Appendix 4: ABG performance reporting in the 2007–08 annual report

Performance indicator	Results
Broadband coverage is available to all residential and small business premises across Australia.	The ABG has enabled access to metro-comparable broadband services across Australia.
Number of program services taken up.	A total of 37 488 connections were subsidised during 2007–08.
Number of information packs sent to registered consumers.	The Department forwarded 75 931 information packs to consumers who had registered on the BSL, including those identified as being able to access a commercial service. A significant number of people receiving an information pack use the advice to identify and sign up with commercially available broadband services while those without such access are sent relevant forms to enable them to apply for an ABG service.
Compliance by providers with program and service requirements.	In 2007, the ANAO issued a report titled Management of the Higher Bandwidth Incentive Scheme and Broadband Connect Stage 1. This program was one of the predecessors of the Australian Broadband Guarantee. The Department has implemented the recommendations from this report, including checking duplicate claims and recovery action where necessary. As at 30 June 2008, the Department had recovered $306 460 of the $462 000 of duplicate claims identified by the ANAO. The Department has strengthened program guidelines and administrative processes to address compliance issues raised in the report. The Department undertook routine audits of five out of 16 Australian Broadband Guarantee providers, with satisfactory results. All 16 providers have submitted their half-year reports.
Complaints received by the department.	Between July 2007 and June 2008, the Department received 30 196 consumer calls on the 1800 freecall number. Of these, 29 412 calls related to requests for information about accessing broadband services and eligibility under the Australian Broadband Guarantee. A further 784 calls were consumer complaints relating to connection delays or quality of service issues, all of which were subsequently resolved.
Cost.	Administered expenses of $84.9 million were incurred in 2007–08.

Source: DBCDE Annual Report 2007–08.

Appendix 5: ABG reporting against the KPI and performance targets in the 2008–09 annual report

Key Performance Indicator: *Equitable broadband coverage through the Australian Broadband Guarantee to areas not serviced by the National Broadband Network.*

2008–09 Performance target	Result
Multiple service providers registered offering competitive services to under-served areas.	Sixteen ISPs have registered under the ABG program. More than 90 per cent of eligible customers under the ABG had access to a satellite service from 11 competing registered providers.
Services offered are comparable to metropolitan areas of Australia.	The program guidelines specify minimum guaranteed service levels that all providers registered under the program are required to meet. These requirements exceed the standard defined for a metro-comparable service under the program, and the Department regularly tests providers' services to ensure they meet the specified requirements. On average, each provider offers 6.5 'added value' services and 91.6 per cent of registered providers' services passed independent data-speed testing against the program's standards. A survey found that 81 per cent of households and 83 per cent of small businesses were satisfied with the quality of their broadband services received under the program.
Consumers across rural and remote Australia are broadly aware of the ABG services.	A survey found that 49 per cent of non‑metropolitan households and 44 per cent of small businesses were broadly aware of the ABG services. The Broadband Consumer Support helpline received 36 505 calls. The Department mailed 60 906 information packs to residential and small business customers across Australia.
Take-up of services is consistent with general consumer demand for broadband.	A survey found that about 55 per cent of non-metropolitan households had a broadband service, broadly consistent with metropolitan take-up. This level of take-up was distributed evenly across non-metropolitan areas, including remote areas.

Source: DBCDE Annual Report 2008–09.

Appendix 6:   Trends in Australian and ABG broadband speeds

Trends in Australian broadband speeds
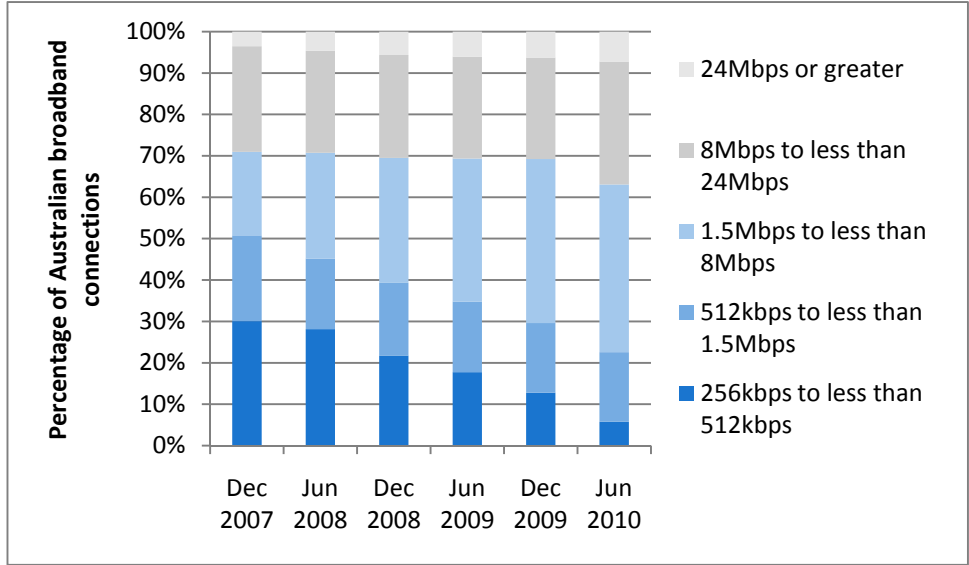
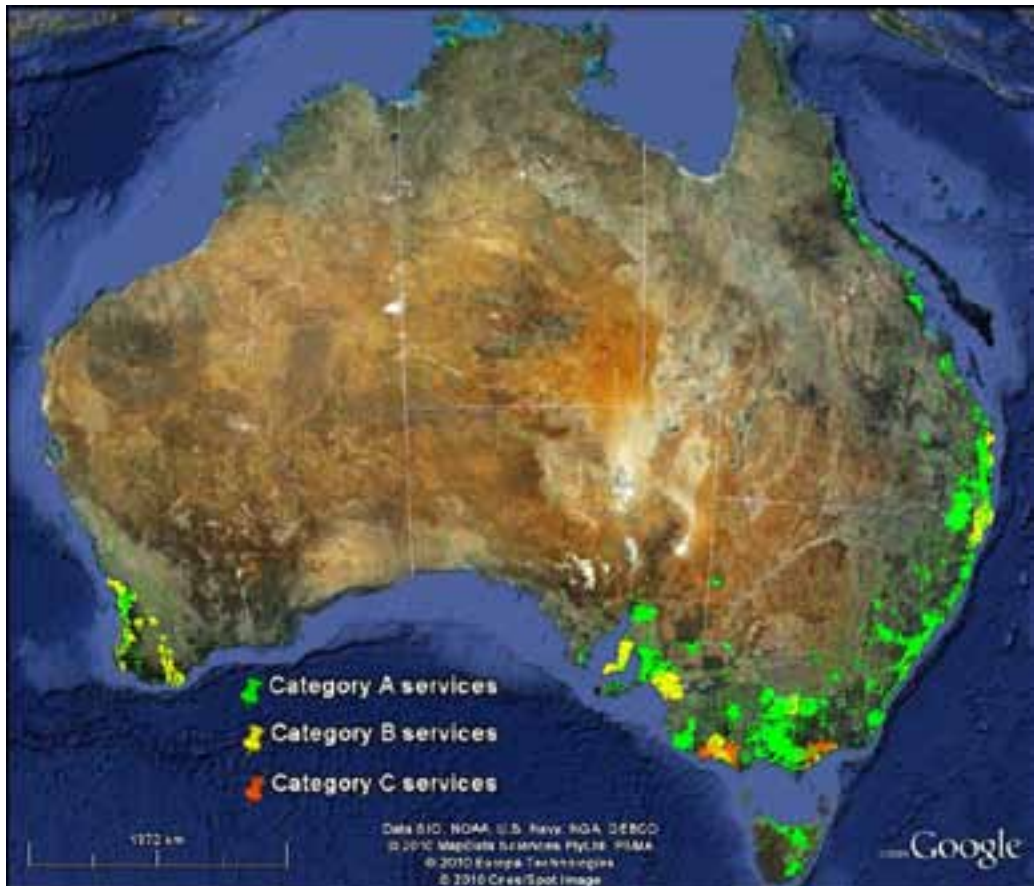Source: ANAO analysis of ABS data.

Trends in ABG broadband speeds
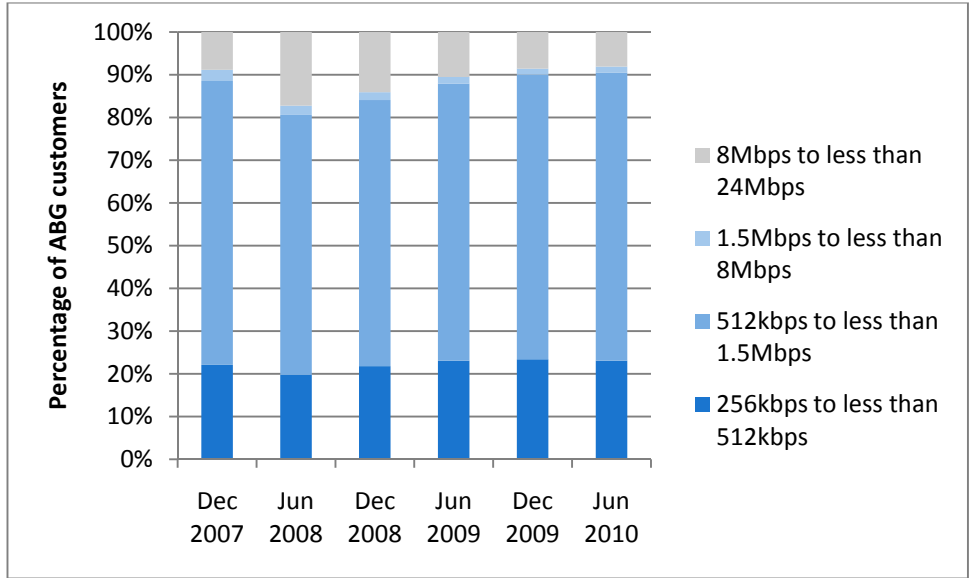
Source: ANAO analysis of ABG data.

# Appendix 7:   Changes in terrestrial broadband coverage

Broadband service coverage in Australia as at January 2010

Note: Category A services are commercial broadband services;

Category B services are ABG program wireless services;

Category C services are ABG program wireless upgrade services; and

Category D services are ABG satellite services (available across Australia - not shown).

Source: Mapping data from DBCDE, image produced by the ANAO.

Broadband service coverage in Australia as at July 2010
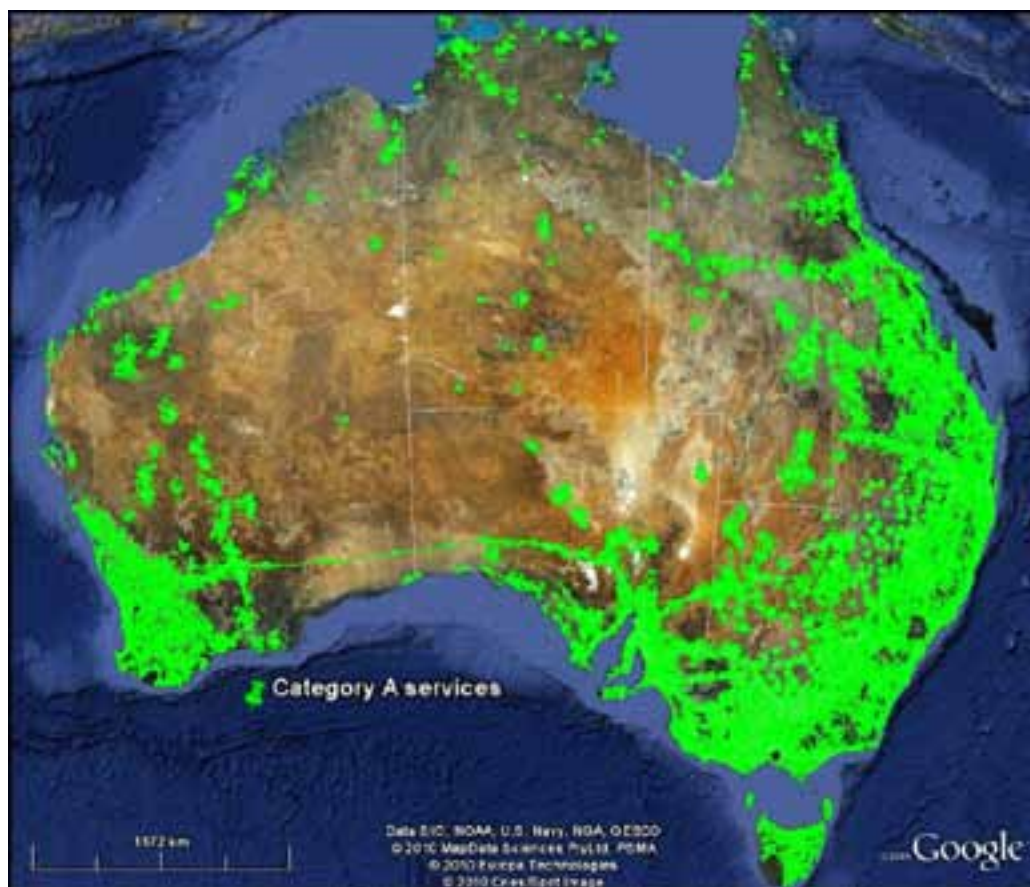
Note: Category B, C and D services not shown.

Source: Mapping data from DBCDE, image produced by the ANAO.

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