Management of the Contract for Telephone Universal Service Obligations

Department of Communications and the Arts

Australian National Audit Office
Canberra ACT
29 September 2017

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Communications and the Arts titled Management of the contract for telephone universal service obligations. The audit was conducted 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 to the Parliament.

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

Yours sincerely

Grant Hehir
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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Summary and recommendations

Background

1. The telephone universal service obligation (USO) requires that Telstra provides all Australians with ‘reasonable access’ to standard telephone services and payphones on an ‘equitable basis’. Telstra has had some form of statutory USO for several decades.

2. In 2012, the USO was incorporated into a 20 year contract (the Telstra USO Performance Agreement, or TUSOPA) between Telstra and the Commonwealth. The customer service obligations of the TUSOPA essentially reflect those of the Commonwealth statutory USO regime however the TUSOPA contains additional detail on how Telstra is to provide the services. Under the TUSOPA, Telstra receives a fixed and unindexed annual GST inclusive payment of $253 million to deliver standard telephone services and $44 million to deliver payphones.

Audit objective, scope and criteria

3. The objective of the audit was to assess the effectiveness of the Department of Communications and the Arts’ contract management of selected telephone universal service obligations (the TUSOPA), specifically standard telephone and payphone services.

4. To form a conclusion against the audit objective the ANAO adopted the following high level audit criteria:

   • Does the contract support achievement of the stated policy objectives and provide value for money?
   • Has the Department effectively managed the contract for telephone universal service obligations?
   • Do the performance reporting and monitoring arrangements provide transparent information on how contract services are achieving stated policy objectives?

5. To conduct the audit the ANAO examined documentation and records relevant to the establishment, contract management and performance monitoring and assessment framework of the TUSOPA held by the Department, the regulator—the Australian Communications and Media Authority—and the service provider—Telstra. Due to short-comings in the Department’s record keeping system, particularly in relation to records relating to the policy development

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1 These are also termed ‘landlines’ or ‘fixed lines’ and can be contrasted to mobile phones. They can be provided via a range of networks, including via the Telstra legacy copper network, the National Broadband Network, satellite, or radio concentrator networks.

2 The contract was originally called the Telecommunications Universal Services Management Agency (TUSMA) agreement, but it was renegotiated with minor changes in 2014 and renamed as the TUSOPA. To avoid confusion, this audit uses TUSOPA to refer to both the original and renamed agreement.

3 As at July 2017 the statutory based USO regime is still in place, and operates in parallel with the TUSOPA. It is administered by Australian Communications and Media Authority (ACMA).

4 TUSOPA also contains additional obligations for Telstra to maintain its legacy copper wire network for areas that lie outside the NBN fixed line footprint and be the standard telephone services provider of last resort utilising NBN infrastructure within the footprint.
process between April 2009 and April 2010, the Department has not been able to provide assurance that it has identified, located and provided all records relevant to chapter 2 of the audit—which covers the establishment of the TUSOPA.

Conclusion

6. The TUSOPA supports the achievement of the stated universal service obligation policy objective of providing reasonable access to standard telephone services and payphones on an equitable basis to all Australians—specifically by establishing a contract with Telstra to deliver basic voice telephony services for a period of 20 years. In addition to the stated policy objective, the TUSOPA also played an important role in securing Telstra’s involvement in the rollout of the National Broadband Network (NBN).

7. However, key aspects of the TUSOPA do not reflect value for money principles. In particular, the contract’s term of 20 years with a fixed annual fee based on 2009–10 costs does not reflect the demonstrated decline in demand for standard telephone and payphone services over the relevant period. Further the TUSOPA limits flexibility in relation to how standard telephone services can be delivered in areas outside the NBN fixed line network.

8. The annual fixed payment of $297 million for standard telephone and payphone services provided under the TUSOPA is consistent with external advice commissioned by the Department in 2011. However there is no evidence that this advice was designed to provide guidance on Telstra’s likely costs to deliver the USO over the life of the contract, and therefore whether the value of the fixed annual contract payments to compensate Telstra for the provision of these services is appropriate. The contract further lacks a mechanism which would enable the Government to effectively manage the financial risks should it wish to end the contract before the scheduled 20 year term.

9. Since assuming responsibility for the TUSOPA in July 2015, the Department has been a relatively passive contract manager. The Department has not utilised the flexibility mechanisms within the contract which have the potential to reduce the annual payment amounts. The Department commenced work in May 2017, through the establishment of the USO Taskforce, to assess whether the annual fixed payments to Telstra continue to represent value for public money in the evolving telecommunications environment.

10. Existing performance reporting provides limited transparency as to whether contract services are achieving the stated policy objective. More specifically, because reporting provides no information on the quantity of standard telephone services that Telstra supplies solely on the basis of its universal service obligations, it is not possible to determine the extent to which the TUSOPA contributes to Australians having reasonable access to such services on an equitable basis. In relation to service quality, contract reporting indicates that, with the exception of some shortcomings in the first year of the TUSOPA in 2012–13, Telstra has met all service

5 Preliminary reporting for 2016–17 indicates that the number of Telstra standard telephone services subject to the Customer Service Guarantee has increased by around three per cent in urban and rural areas as compared to the previous year, but continued to decline in remote areas. However, the overall number of Telstra fixed line services in 2016–17, some of which are not subject to the Customer Service Guarantee, has continued the trend of steady decline of previous years. The number of Telstra payphones in urban, rural and remote areas also continued to fall in 2016–17.
performance benchmarks. Neither the Australian Communications and Media Authority (ACMA) nor the Department undertake processes to verify the accuracy of the underlying performance data provided by Telstra, which is used to determine compliance with the standard telephone customer service guarantee and payphone benchmarks.

11. While the TUSOPA has played a role in facilitating the involvement of Telstra in the rollout of the NBN, there is a lack of clear evidence that a net public benefit has been realised as a direct result of the introduction of the TUSOPA.

Supporting findings

Establishment of the Telstra Universal Service Obligation Performance Agreement

12. Due to short-comings in records management the Department has been unable to provide evidence of what options for delivering the USO were considered as part of the policy development process from mid—2009 through to early 2010. While the Department did provide advice to the Government in April 2010, which was subsequently reflected in a major policy announcement made in June of that year, the advice did not contain any information on alternative USO delivery options or provide a rationale for the approach that was recommended.

13. The Government’s objectives associated with the establishment of the National Broadband Network (NBN) played an important role in the TUSOPA negotiations. The TUSOPA became the means through which the Government was able to deliver sufficient financial benefit to Telstra to ultimately secure its involvement in the rollout of the NBN.

14. Advice provided to the Government from the Department and NBN Co indicated that such involvement would significantly reduce the overall risks associated with the rollout and improve the financial returns generated by NBN Co.

15. Telstra’s service obligations under the TUSOPA support the achievement of the stated universal service obligation policy objective of providing reasonable access to standard telephone services and payphones on an equitable basis to all Australians—specifically by establishing a contract with Telstra to deliver basic voice telephony services for a period of 20 years. However, the TUSOPA limits flexibility in relation to how standard telephone services can be delivered in areas outside the NBN fixed line network, and overall demand for Telstra’s standard telephone and payphone services has continued to decline over the life of the TUSOPA.

16. The TUSOPA’s term of 20 years with a fixed annual fee based on 2009–10 costs does not reflect value for money principles, as it does not reflect the demonstrated decline in demand for standard telephone and payphone services over the relevant period. The annual fixed fee was established based on external advice commissioned by the Department in 2011 which used assumptions provided by Telstra and data from the 2009–10 financial period. There is no evidence that this advice was designed to provide guidance on Telstra’s likely costs to deliver the USO over the life of the contract, notwithstanding that the lack of indexation in the agreement results in the real value of the annual payments declining over time. The TUSOPA further lacks a termination for convenience provision or other mechanism to limit the Government’s financial exposure should it wish to terminate the agreement early.
Management of the Telstra Universal Service Obligation Performance Agreement

17. The Department has not actively managed the contract towards achieving value for money. Since assuming responsibility for the TUSOPA in 2015, the Department has established a payment process and contract management plan, however this plan is silent on the utilisation of mechanisms in the contract which provide near-term opportunities for the Department to explore the achievement of value for money. There is also no evidence that the Department has sought to utilise the flexibility mechanisms in the contract which are available to achieve cost savings or to review the scope of services.6

18. Existing performance reporting provides limited transparency as to whether contract services are achieving the stated policy objective. Reporting is focused on the quality of service delivery—specifically Telstra’s compliance with service benchmarks defined in the USO statutory regime—including the time taken to provide a new STS connection, and the time taken to repair a STS or payphone fault. This indicates that, with the exception of some shortcomings in the first year of the TUSOPA in 2012–13, Telstra has met all service performance benchmarks. However, because reporting provides no information on the quantity of standard telephone services that Telstra supplies solely on the basis of its universal service obligations, it is not possible to determine the extent to which the TUSOPA contributes to the Australian public having reasonable access to standard telephone services on an equitable basis. Further, the existing reporting does not provide data on Telstra’s net cost of supplying standard telephone services and payphones under its universal service obligation. Neither ACMA nor the Department undertakes assurance processes to verify the accuracy of the underlying performance data provided by Telstra that is used to calculate compliance with the service benchmarks.

19. There is a lack of clear evidence that a net public benefit has been realised as a direct result of the introduction of the TUSOPA. The TUSOPA has played a role in facilitating the involvement of Telstra in the rollout of the NBN. The Productivity Commission’s 2017 report into the future direction of the USO concluded that the USO is no longer serving the best interests of the Australian community.

6 Two out of the three flexibility mechanisms allow the Department to propose cost savings or adjust the scope of services as required. The review mechanism in place is restricted to a single review of the technology and systems used to deliver the services which is scheduled to occur in July 2021.
Recommendations

Recommendation no.1
Paragraph 3.14

The Department should:

(a) determine if any of the existing flexibility mechanisms can be utilised to improve value for money outcomes while the National Broadband Network is being rolled out; and

(b) develop options for an efficient transition to any potential alternative USO delivery arrangements.

Department of Communications and the Arts’ response:

The Department did not state whether it agreed or disagreed with the recommendation.

Recommendation no.2
Paragraph 3.32

The Department should review whether existing arrangements provide an appropriate degree of assurance that Telstra’s standard telephone service and payphone reporting is accurate and is an appropriate basis from which to assess Telstra’s performance under the TUSOPA and make annual payments. An initial review should be completed in time to allow for any resulting changes to be implemented before making any payment for the 2016–17 financial year.

Department of Communications and the Arts’ response:

The Department did not state whether it agreed or disagreed with the recommendation.
Key learnings and opportunities for improvement for Australian Government entities

20. A summary of key learnings identified in this audit report that may be considered by other Commonwealth entities when establishing and managing contracts is below.

**Contract performance reporting frameworks**
- The contract performance reporting framework should produce information that assists administering entities in monitoring the extent to which the contract continues to deliver value for money over its full term. This is particularly important for longer-term contracts that have been awarded through non-competitive processes.
- Administering entities should ensure that the overall performance reporting framework provides for assurance over the accuracy of performance reporting information, taking into account the financial materiality of the contract and an assessment of the risks of inaccurate or incomplete reporting.

**Contract management plans**
- Plans should identify what parts of the contract should be actively managed or utilised in order to promote the achievement of value for money. Where appropriate, timeframes for action on these parts should be included.

**Records management**
- Documentation recording key steps in the policy development process, including advice provided to Ministers and Government and relevant decisions made should be stored in a way that enables easy identification and retrieval.

Summary of entity responses

21. The Department of Communications and the Arts, the Australian Communications and Media Authority (ACMA), and Telstra were provided with a copy of the proposed audit report for comment. A summary of the responses received from Department of Communications and the Arts and Telstra is provided below. ACMA did not provide a summary response. The full responses provided by all three entities are at Appendix 1.

**Department of Communications and the Arts**

The Department notes the ANAO’s finding that the Telecommunications Universal Service Obligation Performance Agreement (TUSOPA) supports the achievement of the stated USO policy objective of providing reasonable access to the standard telephone service and payphones.

The Department acknowledges that there is always scope to improve management of a complex contract such as the TUSOPA. The Department has already implemented changes to ensure more effective management of this significant agreement and ANAO’s recommendations will be considered in the context of achieving improvements.

The Department notes the ANAO’s comments regarding the establishment of the TUSOPA. The TUSOPA is one of a number of interrelated agreements between the Government, Telstra and NBN Co Limited, which were designed to support a broader package of telecommunications reform, the implementation of the National Broadband Network, and the structural separation of Telstra.

The Department is developing options to advise Government on future delivery of USO services.
Telstra

The Universal Service Obligation (USO) is national and general in scope. The telephone USO requires Telstra to establish and maintain the infrastructure and other capabilities necessary to meet this obligation, on request, at standard prices, at any time, literally anywhere in the country.

The guarantee of a voice service is important everywhere in the country, but we know it is particularly important in regional, rural and remote Australia where there are fewer alternative communication services available.

Telstra has always received a single annual payment to help maintain its ability to meet the obligation. Telstra does not receive individual payments to connect each premises on a per-premises basis.

The Commonwealth pays Telstra a fixed annual amount each year, not indexed. It therefore has absolute certainty of payments over the life of the contract. Telstra bears all the cost risk under this model. This is appropriate given Telstra is best placed to manage that risk.

The USO contract requires Telstra to maintain its copper network outside the NBN fixed line footprint for the delivery of USO telephone services. That is why changes in the number of voice services in operation over time do not have a material effect on Telstra’s costs of meeting the USO.

If any cost saving measures are identified under the relevant mechanisms in the contract it is in both parties’ interest to implement them. However, given the nature of the obligation, including the necessity to maintain the networks used to deliver it, the scope for cost saving is limited.

Taxpayers have also benefitted enormously from the broader agreement between the Commonwealth, Telstra and the NBN. The USO contract helped to secure Telstra’s participation in the roll-out of the NBN, without which its cost would have been substantially higher.

Telstra endorses the ANAO’s recommendation that the USO Taskforce should develop options for an efficient transition to any potential alternative USO delivery arrangements. A great deal of planning will be needed to ensure any transition is done smoothly and efficiently for customers.
Audit findings
1. **Background**

**Introduction**

1.1 The telephone universal service obligation (USO) requires that Telstra provides all Australians with ‘reasonable access’ to standard telephone services (STS) and payphones on an ‘equitable basis’. Telstra has had some form of statutory USO for several decades.

1.2 In 2012, the USO was incorporated into a 20 year contract (the *Telstra USO Performance Agreement*, or TUSOPA) between Telstra and the Commonwealth. The customer service obligations of the TUSOPA essentially reflect those of the Commonwealth statutory USO regime, however the TUSOPA contains additional detail on how Telstra is to provide the services.

1.3 The TUSOPA is one of four ‘Definitive Agreements’ between the Commonwealth and Telstra that, alongside other agreements negotiated between Telstra and NBN Co, established the framework for Telstra’s involvement in the rollout of the National Broadband Network (NBN).

1.4 From July 2012 to July 2015, the TUSOPA was administered by the Telecommunications Universal Service Management Agency (TUSMA), a statutory entity within the Communications portfolio. In 2015 TUSMA was abolished, with management of the TUSOPA reverting to the Department of Communications and the Arts (the Department).

1.5 Under the TUSOPA, Telstra receive a fixed and unindexed annual GST–inclusive payment of $253 million for STS and $44 million for payphones. $100 million of this is funded through an annual budget appropriation, with the remainder met by an industry levy. Telstra pays approximately 65 per cent of the total levy.

**Evolution of the telephone universal service obligation**

1.6 The foundations of the current USO statutory regime were introduced through the *Telecommunications Act 1991*, followed by the *Telecommunications Act 1997*, which was one of a number of Acts associated with the privatisation of Telstra. The USO arrangements, along with the telecommunications customer service guarantee (CSG), were subsequently transferred into the *Telecommunications (Consumer Protection and Service Standards) Act 1999*. Under these arrangements, the declared universal service provider (Telstra) was required to ensure that STS

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7 The TUSOPA contains some other public interest telecommunications obligations, such as the emergency (triple zero) call service, which are outside the scope of this audit. Payments to Telstra for these are also funded through the budget appropriation and industry levy.

8 Reaching further back, the *Telecommunications Act 1975* required the Australian Telecommunications Commission (as Telstra then was) to provide telecommunications services to meet ‘the social, industrial and commercial needs of the Australian people’ and that were ‘available throughout Australia for all people who reasonably require those services’.

9 The explanatory memorandum to the (then) Telecommunications Bill 1996 noted that the concepts of ‘reasonable access’ and ‘equitable basis’ were intended to relate primarily to access in geographical terms and equity in terms of equality of opportunity, rather than affordability. Affordability was to be addressed separately to the USO, through mechanisms such as competition, price control and targeted assistance.

10 The customer service guarantee specifies time frames for the connection of specified services, the repair of faults and the attendance of appointments by telecommunication service providers. Customers are entitled to compensation if these time frames are not met.
Background

and payphones were reasonably accessible to all Australians on an equitable basis. The USO in the 1999 Act also contained a ‘digital data service obligation’. This was subsequently removed from the USO regime in 2009 on the grounds that the telecommunications market was providing internet services in excess of the standards set down in the legislated digital data service obligation.

1.7 In 2001, the Australian Government selected two geographic pilot areas to trial a process of opening up the provision of the USO to competition. Under the trial’s funding arrangements participating service providers would receive a set subsidy for each customer they supplied. However, the trial finished after three years without attracting any providers other than Telstra. In a wide-ranging review of USO and CSG arrangements conducted in 2004, the Department concluded that the subsidies on offer were likely too low to attract any new providers. At a more general level, the review found that USO arrangements were appropriate and working well, although ongoing attention was warranted in relation to the particular needs of people with disabilities and Indigenous Australians.

1.8 The 2008 report of the Regional Telecommunications Independent Review Committee (Glasson report) recommended that the existing USO statutory regime be replaced by mid–2013 with a new framework that would cover voice, mobile, broadband and payphone services. While the report did not specify any preferred delivery arrangements, or the extent to which public funds might be necessary to support the provision of these services, it stated that ‘specific Australian Government intervention … [should be] … directed only to where there is a gap in service accessibility’. In its response, the Government stated it would consider this recommendation ‘after the outcome of the National Broadband Network (NBN) process is fully known.’

1.9 A subsequent Government discussion paper National Broadband Network: Regulatory Reform for 21st Century Broadband released in April 2009 sought views on a range of issues, including the USO—related aspects of the Glasson report, but did not express any preferred position on USO matters.

1.10 In June 2010 the Government released a policy statement addressing the future delivery of a telephone USO in the context of the planned NBN. This foreshadowed the creation of a new statutory entity, USO Co, later renamed as TUSMA, which would have responsibility for the delivery of the STS and payphones USO. It would fulfil this responsibility through contracting out arrangements—notably, for areas outside of the NBN fixed line network the policy statement provided that USO services would be delivered through a contract with Telstra for a period of 10

11 This was intended to ensure that Australians had reasonable access on an equitable basis to an internet service that provided a data transmission speed of 64 kilobits per second.

12 The first area covered south-western Victoria/south-eastern South Australia with the second covering north-eastern New South Wales / south-eastern Queensland.

13 Approximately $85 million in industry-funded USO subsidies, previously paid solely to Telstra, were made available in the pilot areas for the three years to 2003–04.

14 Review of the operation of the universal service obligation and customer service guarantee, Department of Communications, Information Technology and the Arts, 2004.

15 As previously noted, TUSMA was abolished in 2015 and its responsibilities were transferred to the Department of Communications and the Arts.

16 The NBN Fixed line network area covers an estimated 93 per cent of Australian premises. For the remaining seven per cent of premises NBN services will be delivered via fixed wireless or satellite based solutions.
years using its existing copper network and other relevant infrastructure. The policy statement also foreshadowed that a review of the USO arrangements would be conducted after six years (in 2018). The review was to consider future policy and funding arrangements, including the possible ‘unbundling’ of the USO voice telephony obligation into infrastructure and retail components, and whether to initiate competitive processes in relation to the USO voice telephony obligation.

1.11 Following extended negotiations with Telstra, the TUSOPA and the other NBN related Definitive Agreements were signed on behalf of the Commonwealth by the Minister for Broadband, Communications and the Digital Economy, in June 2011. The TUSOPA came into force on 1 July 2012, the same day that TUSMA commenced operations under its enabling legislation. It was intended that, subject to certain pre-conditions being met including satisfactory operation of the contract to deliver the USO, Telstra’s USO-related statutory obligations would be removed within two years. In order to lift the regulatory obligation from Telstra, the Minister is required to declare that satisfactory contractual arrangements are in place. In 2014, and again in 2017, the relevant Minister has decided against making this declaration. As a consequence, as at July 2017 Telstra’s USO-related statutory obligations remain in place.

1.12 In 2015, the Regional Telecommunications Independent Review Committee (RTIRC) conducted a review of the relevance of the current USO, and the associated consumer safeguards as they relate to the STS. The report found that the current consumer safeguards as they relate to the STS are increasingly irrelevant, and recommended that a new standard should be developed. In its response, the Government stated that the Productivity Commission would be requested to undertake a review into the future requirements for universal services regulation in an evolving telecommunications environment with terms of reference to be issued in early 2016.

1.13 In 2016–17, the Productivity Commission undertook an inquiry into the ‘future direction of a universal service obligation in an evolving telecommunications market’. Its final report, which was publicly released on 19 June 2017, concluded that the current USO arrangements were ‘anachronistic and costly...[and]...no longer serving the best interests of the Australian community’. It recommended that the Government should commence negotiations with Telstra to terminate the payphone component of the TUSOPA ‘as soon as practical’, with the STS component to be terminated shortly after the NBN is fully rolled out in 2020. The Commission’s report suggested these be replaced by a set of targeted policy responses, including in relation to areas in the NBN satellite footprint that may not have adequate mobile coverage, and also programs addressing cohorts of users with particular needs. At the time of the report’s release, the Government noted it had established a ‘USO Taskforce’ within the Department to give consideration to the report.

17 These potentially included people with disability or life-threatening health conditions, people living in remote Indigenous communities, some older people with limited digital literacy, and people without a permanent fixed address.

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Audit approach

1.14 The objective of the audit was to assess the effectiveness of the Department of Communications and the Arts' (the Department) contract management of selected telephone universal service obligations.

1.15 To form a conclusion against the audit objective, the Australian National Audit Office (ANAO) adopted the following high-level audit criteria:

- Does the contract support achievement of the stated policy objectives and provide value for money?
- Has the Department effectively managed the contract for telephone universal service obligations?
- Do the performance reporting and monitoring arrangements provide transparent information on how contract services are achieving stated policy objectives?

1.16 The audit focuses on the two largest components of the TUSOPA—those components which deal with universal service obligations for the provision of standard telephone (landline) services, and payphones. The audit excludes the triple zero emergency call service component of the TUSOPA. While the audit had access to a range of TUSMA contract management records from 1 July 2012, the audit focussed on the management of the contract following reversion to the Department.

1.17 In order to avoid any duplication with the work of the Productivity Commission’s USO inquiry, the audit did not consider broader questions of the effectiveness of USO policy. This said, the audit reviewed submissions to the Productivity Commission inquiry from key government, industry and consumer stakeholders to the extent they were relevant to the current USO contractual arrangement. The audit recommendations also take account of the Commission’s final report.

1.18 Given its responsibility for the delivery of the USOs under the TUSOPA, the audit also obtained extensive information directly from Telstra.

1.19 While the Australian Communications and Media Authority (ACMA) do not have contract management responsibilities under the TUSOPA, it is the relevant regulator under the USO statutory regime. As the regime directly affects matters such as Telstra’s service performance obligations under the TUSOPA, ACMA were included within the scope of the audit.

1.20 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of approximately $307 000. A summary of the work performed by the ANAO in undertaking the audit is at Appendix 2.

1.21 The team members for this audit were Angus Martyn, Joyce Knight and Paul Bryant.
2. Establishment of the Telstra Universal Service Obligation Performance Agreement

Areas examined
This chapter examines the establishment of the Telstra Universal Service Obligation Performance Agreement (TUSOPA), including what advice was provided by the Department to inform major policy decisions. In this context, it examines whether the TUSOPA supports the achievement of the stated policy objectives and provides value for money.

Conclusion
The TUSOPA supports the achievement of the stated Universal Service Obligation (USO) policy objective of providing reasonable access to standard telephone services and payphones on an equitable basis to all Australians—specifically by establishing a contract with Telstra to deliver basic voice telephony services for a period of 20 years. In addition to the stated policy objective, the TUSOPA also played an important role in securing Telstra’s involvement in the rollout of the National Broadband Network (NBN).

However, key aspects of the TUSOPA do not reflect value for money principles. In particular, its term of 20 years with a fixed annual fee based on 2009–10 costs does not reflect the demonstrated decline in demand for standard telephone and payphone services, over the relevant period. Further the TUSOPA limits flexibility in relation to how standard telephone services can be delivered in areas outside the NBN fixed line network.

The annual fixed fee of $297 million for standard telephone and payphone services provided under the TUSOPA is consistent with external advice commissioned by the Department in 2011. However there is no evidence that this advice was designed to provide guidance on Telstra’s likely costs to deliver the USO over the life of the contract and therefore whether the value of the fixed annual contract payments to compensate Telstra for the provision of these services is appropriate. The contract further lacks a mechanism which would enable the Government to effectively manage the financial risks should it wish to end the contract before the scheduled 20 year term.

Area/s for improvement
As chapter 2 largely deals with the Department’s historical role in the USO policy development and subsequent establishment of the TUSOPA, no specific areas for improvement are suggested.
Did the Department provide appropriate advice on options to deliver the universal service obligation in an evolving telecommunications environment?

Due to short-comings in records management the Department has been unable to provide evidence of what options for delivering the USO were considered as part of the policy development process from mid–2009 through to early 2010. While the Department did provide advice to the Government in April 2010, which was subsequently reflected in a major policy announcement made in June of that year, the advice did not contain any information on alternative USO delivery options or provide a rationale for the approach that was recommended.

2.1 The April 2009 Government discussion paper *National Broadband Network: Regulatory Reform for 21st Century Broadband* did not express any preferred position on how best to deliver the USO. In April 2010 the Department provided the Government with a policy paper containing a set of suggested policy principles in relation to how the USO would be delivered while the National Broadband Network was being rolled out.18,19 These principles were subsequently incorporated in the 20 June 2010 Government announcement that the telephone USO would be transferred to a new entity, the TUSMA, which would then enter into contracts with third parties to deliver services. The Department was however unable to locate any records that detail what options were considered to deliver the USO or how the principles outlined in the April 2010 paper were developed.

Did the proposed National Broadband Network influence the negotiation of the TUSOPA?

The Government’s objectives associated with the establishment of the National Broadband Network (NBN) played an important role in the TUSOPA negotiations. The TUSOPA became the means through which the Government was able to deliver sufficient financial benefit to Telstra to ultimately secure Telstra’s involvement in the rollout of the NBN.

Advice provided to the Government from the Department and NBN Co indicated that such involvement would significantly reduce the overall risks associated with the rollout and improve the financial returns generated by NBN Co.

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18 The paper included policy principles which underpinned the Australian Government contribution to secure Telstra’s involvement in the rollout of the NBN. It addressed the Universal Service Obligation, funding for retraining and redeployment of Telstra staff, and the requirement for NBN Co to become the wholesale provider of last resort for fibre connections in new developments from 1 January 2011.

19 The policy paper was unable to be located by the Department. It was located and provided by the Department of Prime Minister and Cabinet.
Telstra and the NBN rollout

2.2 In March 2010 the Department advised the Minister that an *NBN Implementation Study*[^20] had highlighted the magnitude of the policy challenges, and observed that the risks in relation to its successful implementation were high. These risks covered cost, timeframe, competition outcomes, industry effects, migration and take-up rates. Advice provided to the Minister by the Department noted that the Implementation Study had identified opportunities for cost reductions if commercial arrangements to access existing infrastructure could be made. In advice provided to the Minister, the Department observed that a deal on access to Telstra’s infrastructure such as cabling ducts could reduce the NBN build cost by approximately $6 billion.

2.3 While the implementation study found that a commercial arrangement was not mandatory to ensure the success of the NBN, it was noted that a deal would reduce build costs and improve revenue for NBN Co by improving the take up rate. The increases in revenue were estimated to improve the Internal Rate of Return (IRR) of the NBN project from approximately five to seven per cent.

The Universal Service Obligation and the NBN

2.4 The rollout of the NBN is resulting in a fundamental change to the structure of the Australian telecommunications network, as Telstra’s national copper fixed line network is progressively decommissioned. During the roll-out it was the intention of Government that, once certain pre-conditions had been met, the service delivery arrangements for the USO would transition from a regulatory model, where the USO is provided by a single primary universal service provider, to a model whereby the delivery of standard telephone services (STS) and payphones under a USO would be opened to competition within the NBN fixed line network. Outside of the NBN fixed line network, the Government would enter into contracts with service providers to deliver STS and payphone services under the USO. In order to ensure continuity of services during the transition to the NBN, the Government announced in June 2011 that it had entered into an initial service agreement with Telstra—the TUSOPA.

2.5 The TUSOPA is one of eight Definitive Agreements which provides the framework for Telstra’s participation in the rollout of the NBN. In total, the eight Definitive Agreements are the mechanism which will deliver the $11.2 billion of value Telstra advised was required to secure its participation in the rollout of the NBN. Four of these Agreements are between Telstra and NBN Co, and the other four are between the Commonwealth and Telstra.

2.6 According to Telstra’s calculations, $2.2 billion of the $11.2 billion was to be provided by the Commonwealth across several policy commitments. These policy commitments included the TUSOPA; new regulations making NBN Co the infrastructure provider of last resort in new developments[^21]; compensation for redundancy and retraining costs; as well as a general upfront

[^20]: The NBN Implementation Study was a comprehensive report released in May 2010 which provided advice to Government on the implementation of the NBN. The report was informed by specialist commercial, financial, technical and legal advice and made 87 recommendations to Government covering commercial, financial, funding, technology, regulatory and competition issues in relation to the implementation of the NBN.

[^21]: On 20 June 2010, the Government announced that NBN Co would be the infrastructure provider of last resort in new developments from 1 January 2011. Telstra would not have infrastructure responsibilities but would be the retail provider of last resort, and for developments of less than 100 premises, Telstra will continue to be responsible for delivering infrastructure and services, until fibre is rolled out.
Establishment of the Telstra Universal Service Obligation Performance Agreement

Whilst the non—USO policy commitments related to the three other Definitive Agreements are not within the scope of this audit, there has been no evidence located to indicate that the Department undertook an analysis of the overall structure of the full package of Agreements in order to identify the best option available to provide the required value to Telstra whilst meeting the broader policy objectives of the Government in a manner which delivered value for money.

**Negotiating the TUSOPA**

2.7 Negotiations with Telstra to secure its involvement in the rollout of the NBN commenced prior to the June 2010 policy statement. Departmental records indicate that high level discussions were held, proposals made and letters exchanged between the Department and Telstra in the period April 2010 and June 2010. The Department was unable to locate copies of all letters.

2.8 Formal negotiations between the Commonwealth and Telstra in relation to the TUSOPA commenced in late October 2010 and concluded in June 2011 with the signing of the TUSOPA. Throughout the negotiations Telstra’s priority was to achieve the total $11.2 billion in value attributed to the entire package of Agreements between the Commonwealth and NBN Co.

**Figure 2.1: Timeline – Negotiation through to finalisation of TUSOPA**

![Timeline diagram]

Source: ANAO analysis.

2.9 In late 2010, the Department provided the Government with an update on the progress of the negotiations in relation to the various Definitive Agreements, including the TUSOPA. This advice noted that the difficulties in reaching agreement were such that there was a risk Telstra may suspend or withdraw from the negotiations. Whilst noting this risk, the Government agreed

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22 Three of these policy commitments included additional funds to Telstra. For the USO, the funds were in the form of $730 million of increased payments. For redundancy and retraining, the funds were in the form of an upfront payment of $100 million, and $190 million as a general upfront payment. The value of the two remaining policy commitments was in the form of costs avoided: $300 million to make NBN Co the infrastructure provider of last resort in new developments; and $710 million to transfer responsibility to the Commonwealth to meet the costs to migrate ‘voice only’ customers from the copper network onto the NBN.

23 A brief description of the four Agreements, including the approximate value attributed by Telstra between the Commonwealth and Telstra is provided at Appendix 3.

24 Records indicate that there were five letters exchanged during April 2010. The Department could only produce two.
that the negotiations with Telstra on the USO changes should continue to be conducted in line with the June 2010 policy statement.

2.10 In early 2011 the Department provided the Government with a further update on the negotiations with Telstra. Following this, the Government agreed to authorise the Communications Minister to negotiate an in-principle agreement with Telstra for the delivery of the USO through an annual payment in the order of $290 million per annum, based on an opening position of a 10 year term but with flexibility to move out to a maximum of 20 years if required. This in-principle agreement (incorporating the offer of a 20 year term) was communicated to Telstra in a letter dated 9 February 2011 along with commercial term sheets. Between February and June 2011 these commercial term sheets were translated into the TUSOPA by the external legal services provider engaged by the Department.

Do Telstra’s service obligations under the TUSOPA support the achievement of the stated universal service obligation policy objective?

Telstra’s service obligations under the TUSOPA support the achievement of the stated USO policy objective of providing reasonable access to standard telephone services and payphones on an equitable basis to all Australians—specifically by establishing a contract with Telstra to deliver basic voice telephony services for a period of 20 years. However, the TUSOPA limits flexibility in relation to how standard telephone services can be delivered in areas outside the NBN fixed line network, and overall demand for Telstra’s standard telephone and payphone services has continued to decline over the life of the TUSOPA.

Telstra’s service obligations under the contract

Standard Telephone Service

2.11 Up until 2012, Telstra policy was to make ‘all reasonable efforts’ to supply a STS when requested to do so. Due to concerns about the transparency of how this policy was being applied, the Government introduced the *Telecommunications Universal Service Obligation (Standard Telephone Service—Requirements and Circumstances) Determination (No. 1) 2011*. This determination requires that Telstra must provide an STS on request, *except* where it falls into a specific set of exclusions contained in the determination. In effect, the exclusions set out the limits of what is ‘reasonable access on an equitable basis’ to an STS.

2.12 Notably, the key exclusions include:

- premises that are not principal places of residence of the person requesting the STS;
- premises in mining or isolated communities that are occupied for less than half of the year;
- premises that are not permanent structures, are not fully completed, or don’t comply with all planning laws;

25 The offer advised Telstra that the Government was prepared to enter into a 20 year contract, with a commitment that the arrangements be reviewed by Government at the 10 year mark.
the person making the request refuses to cover the cost of any trenching or similar work from property boundary to the building where the STS is to be located; or

Telstra cannot gain access to the necessary power and infrastructure to supply the STS.

2.13 Telstra advised the ANAO that there were no occasions in 2015–16 or 2016–17 where it had specifically declined to provide an STS under any of the exclusions in the above determination. Information provided by Telstra to the ANAO indicate that there were 24 requests which were subject to specific Telstra internal review processes in 2016–17 as a result of questions about eligibility. Nine of these requests were recorded as having resulted in an STS being supplied, however there was no definitive information on the outcome of the requests for the other fifteen.

2.14 The Australian Communications and Media Authority (ACMA) advised that it had not received any complaints over the two years to June 2017 regarding Telstra refusing to supply an STS under its USO. Due to the way complaints are categorised, the Office of Telecommunications Industry Ombudsman was unable to supply the ANAO with any complaint data that related to Telstra’s provision of STS under its USO.

2.15 In providing a STS, neither the TUSOPA nor the statutory regime requires Telstra to distinguish between services provided in the ordinary course of commercial operations and services which are only supplied due to the USO. There was no evidence that the Department had considered during the TUSOPA negotiations whether, in view of the length of the contract term and the increased payments to Telstra, it would be appropriate to require Telstra to specifically record and report on the number of STS provided under its USO. Telstra advised the ANAO that, based on previous comparable projects, amending its IT systems to enable the recording of USO-specific STS could cost at least $3 million, which it considered as ‘prohibitively expensive’. There would also be additional operational costs involved in determining which existing STS customers should be classified as a USO customer.

2.16 Information is available on the number of STS Telstra provides that are subject to the Customer Service Guarantee (CSG). Telstra’s performance against the CSG is considered by the Department and ACMA to provide ‘proxy’ indicators of performance against its STS USO.

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26 Under Telstra’s national pricing policy, Telstra charges the same fee for any STS connection in Australia provided under its USO requirements, irrespective of whether it supplied by traditional fixed line or alternative technology such as satellite phone. In addition to the costs of trenching noted above, Telstra may also charge a ‘network extension’ fee if the STS is to be supplied by cable and the property is more than 500 metres from the nearest part of Telstra’s existing network.

27 Telstra confirmed advice received from ACCAN which advised the ANAO that some deficiencies in Telstra’s USO processes had come to light in early 2017 in relation to provision of the USO for standard telephone (fixed line) services in new residential developments. These resulted in some customers not being offered alternative phone solutions pending the rollout of the NBN in a new residential development in Belmond, Victoria. Telstra advised that its processes were subsequently amended to prevent the problem reoccurring and in addition they attempted to contact affected customers to offer them an interim USO voice service.

28 Or because the request would involve network construction costs of more than $10 000.

29 The statutory-based CSG requires providers (including Telstra) of relevant standard telephone services to meet timeframes for the connection of specified services, the repair of faults and the attendance of customer appointments. Telstra’s performance against the CSG is discussed in chapter 3.
 obligations.\textsuperscript{30} As shown in Table 2.1 below, as at 30 June 2016 Telstra provides over 900 000 STS subject to the CSG to rural and remote areas.\textsuperscript{31} The number of Telstra-supplied STS in these areas has fallen by an average of five per cent each year that the TUSOPA has been in place—a slightly smaller rate of decline compared to urban areas.\textsuperscript{32}

Table 2.1: Number of Telstra standard telephone services subject to the customer service guarantee

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>5 314 057</td>
<td>5 037 959</td>
<td>4 756 928</td>
<td>4 360 814</td>
</tr>
<tr>
<td>Urban Areas (population above 10 000)</td>
<td>4 267 078</td>
<td>4 043 168</td>
<td>3 803 496</td>
<td>3 450 905</td>
</tr>
<tr>
<td>Major and minor rural areas (population between 10 000 and 200)</td>
<td>1 032 335</td>
<td>980 993</td>
<td>940 106</td>
<td>897 246</td>
</tr>
<tr>
<td>Remote areas</td>
<td>14 644</td>
<td>13 798</td>
<td>13 326</td>
<td>12 663</td>
</tr>
</tbody>
</table>

Source: ACMA.

The Copper Continuity Obligation

2.17 For areas outside of the NBN fixed line footprint, the TUSOPA emphasises the primary role of the Telstra copper network in the delivery of the STS USO. In particular, if a STS ‘service address’ was connected to the Telstra copper network as at 1 July 2012, Telstra must use its copper network to supply that STS unless the customer specifically prefers another technology (or one of the exceptions applies).\textsuperscript{33,34} The clause also requires Telstra to maintain its copper network and associated infrastructure to achieve this, effectively requiring the network outside the NBN fixed line footprint to be maintained through to 2032. There was no evidence that, in considering the option of increasing the TUSOPA contract term from 10 to 20 years, the Department provided advice to the Government about the appropriateness of extending the Copper Continuity

\textsuperscript{30} The use of CSG standards to assess Telstra’s performance in relation to its STS USO obligations predates the establishment of the TUSOPA.

\textsuperscript{31} In terms of other possible indicators of USO-related STS, the total number of Telstra services in so-called ‘Band 4’ areas (exchanges service areas where there is a low number of services per square kilometre) are slightly below 800 000. Telstra estimates of the number STS it provides outside the anticipated NBN fixed line footprint is somewhat fewer again, being in the range of 651 000 to 695 000.

\textsuperscript{32} Preliminary reporting for 2016–17 indicates that the number of Telstra standard telephone services subject to the Customer Service Guarantee has increased by around three per cent in urban and rural areas as compared to the previous year, but continued to decline in remote areas. However, the overall number of Telstra fixed line services in 2016–17, some of which are not subject to the Customer Service Guarantee, has continued the trend of steady decline of previous years.

\textsuperscript{33} For STS inside the NBN fixed line footprint that were connected to the Telstra copper network as at 1 July 2012, Telstra must maintain the copper network until the area are is serviced by the NBN and services are migrated across to the NBN.

\textsuperscript{34} These exceptions include where the existing copper network has deteriorated, been damaged or has not had an active service in operation for more than three years.
Establishment of the Telstra Universal Service Obligation Performance Agreement

Obligation to match this term given the likely significant advances in network technology over such an extended period.\textsuperscript{35}

2.18 If a STS was not connected to the copper network in 2012, Telstra may deliver the service through other network technologies as long as they support USO requirements.\textsuperscript{36} However, due to restrictions imposed by NBN Co agreements, Telstra cannot utilise NBN fixed wireless or the NBN SkyMuster satellite phone networks to deliver STS. As such, as shown in Table 2.2, significant numbers of Telstra STS are provided via Radio Concentrator technology, and to a lesser extent, third-party satellite phone.

Table 2.2: Number of Telstra standard telephone services outside the NBN fixed line area

<table>
<thead>
<tr>
<th>Network technology</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper line</td>
<td>633,362 – 677,697\textsuperscript{a}</td>
</tr>
<tr>
<td>Radio Concentrator</td>
<td>16,426</td>
</tr>
<tr>
<td>Satellite phone</td>
<td>981</td>
</tr>
</tbody>
</table>

Note a: The number of STS provided via copper line network is expressed as a range due to the address matching technique used by Telstra to generate the estimate. Figures are current as of September 2016.

Source: Telstra.

Payphones

2.19 Telstra’s obligations in relation to payphones under the TUSOPA are also set by reference to the USO statutory regime. In this case, the key legislative instrument is the *Telecommunications Universal Service Obligation (Location of Payphones) Determination 2011*, which sets out rules governing where and when Telstra can locate, relocate or remove payphones.\textsuperscript{37}

2.20 Subject to procedures for the removal of payphones, Telstra must continue to maintain a payphone at each site where a payphone was located immediately prior to the date of the commencement of the determination. Telstra must also install a new payphone where it receives a request unless:

- doing so would not deliver a net social benefit to the local community, or
- it cannot reasonably install and operate a payphone at a new payphone location.

\textsuperscript{35} Records of negotiating meetings between the Department and Telstra leading up to the Government’s decision to authorise a 20 year term note that ‘Telstra indicated it saw its Next G network and future development of [Long-Term Evolution] networks were potential genuine substitutes for copper, but the contract would limit use of this technology.’

\textsuperscript{36} For example, the priority assistance service. This service is designed to help customers who have (or are living with someone who has) a diagnosed life-threatening medical condition, and whose life may be at risk without access to a fully operational phone service. Telstra seeks to provide expedited fault repair timeframes for these customers.

\textsuperscript{37} The determination does not apply to ‘community phones’ in Indigenous communities supplied by Telstra under separate Australian Government funding programs. In these cases, the Telstra community phones are specific subject to contractual agreements in relation to supply, installation and maintenance.
2.21 The determination sets out the factors for deciding whether there will be a net social benefit to the local community. In broad terms these factors are; the likely commercial viability of the payphone, the benefit to the local community, and the adequacy of mobile phone coverage in the relevant area for emergency calling purposes. Telstra must also have regard to guidelines issued by the ACMA when determining the issue of net social benefit.

2.22 Likewise, the determination also sets out the factors for deciding whether a payphone can reasonably be installed and operated at a new location. These factors include whether Telstra is able to obtain relevant approvals, the extent to which it is reasonably practicable to provide power to the new payphone location; and the safety of the public, users of the payphone and the provider’s employees and agents.

2.23 Telstra advised the ANAO that in 2015–16, it received 142 new site requests for payphones. Of these, 92 were approved and 50 were declined. The majority of those declined were because ‘the site owner and Telstra were not able to agree to a commercial agreement, or an alternate payphone existed at the site or nearby’.

2.24 The *Telecommunications Universal Service Obligation (Location of Payphones) Determination 2011* also sets out the rules for removing payphones. Telstra is required to follow a public consultation process if it proposes to remove the last remaining payphone at a site, although this is not required where the owner of the payphone site has withdrawn consent for the retention of the payphone. Payphones can be removed on the grounds of:

- lack of net social benefit to the local community;
- demonstrated community support for the removal;
- Telstra cannot continue to reasonably operate the payphone at the site; or
- relocation to a nearby area.

2.25 Both the Department and ACMA receive quarterly reporting on payphone locations, including intended or planned removals. As part of its regulatory function, the ACMA compares proposed removal notices for payphones on the relevant Telstra website with removals listed in Telstra’s quarterly reporting in order to monitor compliance with public consultation obligations, and seeks clarification from Telstra where there are apparent inconsistencies. Under the *Telecommunications Universal Service Obligation (Location of Payphones) Determination 2011* and the *Telecommunications Universal Service Obligation (Payphone Complaint Rules) Determination 2011*, the ACMA has a regulatory role in overseeing whether Telstra has correctly applied the criteria for making decisions about installing and/or removing telephones under its USO, and also how Telstra deals with objections regarding such decisions. ACMA has received only one complaint in the two years to May 2017 about a payphone removal.41

38 Including after taking into account funding received by Telstra under the TUSOPA.

39 Telstra is required to take all reasonable steps to obtain relevant approvals, such as planning approval from a local government body or owner of premises in which a payphone is proposed to be sited.

40 A ‘commercial agreement’ falls within the scope of the ‘relevant approvals’ referred to in footnote 39.

41 ACMA further advised that the complaint was not upheld because involved a removal from a site where multiple payphones were located, and as, such the removal was compliant with section 6 of the Locations of Payphones Determination.
2.26 As shown in Figure 2.2, the total number of Telstra-operated payphones has dropped in recent times by an average of almost two per cent each year, although there are fluctuations from year to year. Information from the Productivity Commission USO inquiry showed that the number of calls made from Telstra payphones has declined at a much faster rate, nearly halving from 2012–13 to 2015–16.

Figure 2.2: Number of Telstra payphones by geographical area

![Bar chart showing number of Telstra payphones by geographical area from 30 June 2013 to 30 June 2016.](image)

Source: ACMA Communications reports.

2.27 The number of Telstra payphone sites has actually increased slightly over the term of the TUSOPA as shown in Table 2.3 (Note—some sites may contain multiple payphones).

Table 2.3: Number of Telstra payphone sites

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>14,938</td>
<td>14,915</td>
<td>15,170</td>
<td>15,568</td>
</tr>
</tbody>
</table>

Source: ACMA Communications reports.

By comparison, non-Telstra operated payphones have decreased from 11,438 to 7,480 over the same period.
Does the TUSOPA contract term and annual fee reflect value for money?

The TUSOPA’s term of 20 years with a fixed annual fee based on 2009–10 costs does not reflect value for money principles, as it does not reflect the demonstrated decline in demand for standard telephone and payphone services over the relevant period. The annual fixed fee was established based on external advice commissioned by the Department in 2011 which used assumptions provided by Telstra and data from the 2009–10 financial period. There is no evidence that this advice was designed to provide guidance on Telstra’s likely costs to deliver the USO over the life of the contract, notwithstanding that the lack of indexation in the agreement results in the real value of the annual payments declining over time. The TUSOPA further lacks a termination for convenience provision or other mechanism to limit the Government’s financial exposure should it wish to terminate the agreement early.

The term of the TUSOPA

2.28 The June 2010 policy statement originally envisaged that responsibility for the USO would be transferred from Telstra to a new entity from 1 July 2012, and Telstra would be contracted to deliver services outside of the NBN fixed line footprint for a 10 year period. This period aligned with the anticipated eight year rollout period of the NBN, and provided for a two year transitional period for completing a planned policy review in 2018 and undertaking any resulting competitive process in relation to the USO after the rollout of the NBN was complete.

2.29 In order to implement the announced changes to the USO, a discussion paper was released by the Department in October 2010.43 This paper sought input from stakeholders to inform the development of detailed arrangements and feed into the negotiations with Telstra to implement the new universal service framework. The proposal outlined in the discussion paper aligned with the previous announcement made by the Government in June 2010, which stated that Telstra would be contracted to deliver voice telephony (STS) and payphones in accordance with the USO outside of the NBN fixed line network for a 10 year period.

2.30 In November 2010, Telstra advised the Department that the discussion paper canvassed options which, if adopted, would substantially diminish the anticipated financial value to Telstra of the USO arrangements. This ‘value gap’ was estimated at $435 million and emerged based on Telstra’s position that the originally agreed mechanism to deliver the $730 million of value which had been attributed by Telstra to the USO arrangements had assumed a period of 20 years, and had included a consumer levy.44

2.31 In order to attempt to close this ‘value gap’ a number of options were discussed between Telstra and the Department. These involved various combinations of payment amounts, funding

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43 This discussion paper, the Implementation of the Universal Services reform was released 22 October 2010.
44 The Department has not been able to produce any evidence which confirms that the Government or the Department had advised Telstra that the changes to the USO which were proposed included a 20 year term.

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sources and contract terms. Some of these options were subsequently included in advice provided to the Government in early 2011 regarding the Telstra negotiations. The options included were:

- a 10 year term, with no annual consumer levy;
- a 20 year term, with no annual consumer levy;
- a 12 year term, with a $60 million per annum consumer levy;
- a 20 year term, with no annual consumer levy, and a right to terminate at 10 years for a break fee of $1.3 billion; and
- a 10 year term, with no annual consumer levy and an annual fee of $493 million per annum.

2.32 Subsequently, the Government agreed in early 2011 to authorise the Minister to settle an in-principle agreement with Telstra for the delivery of the USO based on an annual payment in the order of $290 million per annum; with an opening position of a 10 year term, but with flexibility to move out to a maximum 20 year term.

2.33 The day after the Government provided this authority, the Minister issued a letter to the Board of Telstra proposing a 12 year term. Telstra responded that a 12 year term could be accommodated if an additional $60 million per annum customer levy was added to the proposed annual fee of $297 million. Following further discussions at senior levels, a term of 20 years with the annual fee remaining at $297 million was proposed and agreed.

2.34 As noted above, one of the options considered was a contract with a nominal 20 year term that gave the Government the ability to terminate after 10 years—albeit with a fixed payout to Telstra if the Government did end the contract at that time. This option was rejected by the Government. As a consequence of this decision the TUSOPA does not contain any provision allowing the Government to unilaterally terminate either the entire contract, or Module B (STS) or C (payphones), at its convenience. Additionally there is no mechanism which can be invoked to calculate a payout figure should the Government wish to terminate the Agreement early. Noting the extended duration of the Agreement and the total cost of the annual payments due under it, the inclusion of such a mechanism would have enabled the Government to better manage its financial risks in the event of early termination.

The annual payment amount for services under the TUSOPA

2.35 The issue of the appropriate way to calculate Telstra’s net cost of delivering the STS and payphone USOs, and who should contribute to paying this cost, has been the subject of a number of reviews since Telstra first received payments in 1992–93. The payment amounts to date have gone through four distinct phases:

- an initial continuous growth phase, rising from $149.17 million in 1992–93 to $299.05 million in 2000–01;

45 In relation to the first four options, while the annual payment amount in relation to each was not specifically listed in the advice, the advice noted that Government had offered Telstra a combined $277.5 million per year to deliver the STS and payphone USOs.

46 The TUSOPA does include a provision which allows Telstra to terminate the Agreement by providing 24 months written notice to the Department. However, this clause cannot be invoked before 30 June 2025.
• a subsequent continuous reduction, falling from $299.05 million in 2000–01 to $145.08 million in 2007–08;
• no change from 2007–08 to 2011–12, with the amount remaining at $145.08 million; and
• commencement of the TUSOPA, incorporating an increase to the fixed annual payment of $297 million from 2012–13 onwards.

2.36 Prior to the TUSOPA, the costs of USO payments made to Telstra were met solely through a levy on the telecommunications industry. In 2011–12, the last year prior to TUSOPA, Telstra contributed 60.6 per cent of the total industry levy amount of $145.08 million.

2.37 The cost of the annual USO payments to Telstra under the TUSOPA is currently met through a combination of a revised industry levy ($217.74 million) and by the Australian Government through a budget appropriation ($100 million). In 2015–16, Telstra paid 66.3 per cent of the total industry levy, or 48.6 per cent of the total amount it receives under the TUSOPA.

2.38 In April 2010, the Department commenced discussions with Telstra to determine its costs to deliver the USO. Through an exchange of letters, Telstra advised the Department that it had valued the USO at $414 million per annum. In September 2010, the Department attempted to develop a model to estimate the costs to provide fixed line services under the USO prior to commencing formal negotiations. During the negotiations process Telstra advised that it considered there were defects in the cost model proposed by the Department. In November 2010 Telstra proposed an annual payment amount of $316 million per annum for the provision of the STS and payphones under the USO. As negotiations progressed over late 2010, the costs to deliver the services emerged as a fundamental issue of difference between the parties.

2.39 In January 2011, the Department instructed its commercial advisor to commission work to provide an estimate of Telstra’s likely net costs to deliver the STS and payphone USOs. Subsequently, a consultant was engaged to prepare a report to estimate this cost in relation to the two proposed USOs—specifically the provision of a STS for the seven per cent of Australian premises that would not be covered by the NBN, and the ongoing provision of Telstra’s payphone service.

2.40 The resulting estimate developed by the consultant relied on assumptions provided by Telstra and data from the 2009–10 financial year. This point-in-time estimate concluded that a reasonable range for the provision of STS and payphones under the USO was between $215 million and $262 million, and $35 million to $48 million respectively. The resulting range of $250 million to $310 million for STS and payphones was close to the annual payment amount proposed by Telstra in November 2010. These figures were then applied by the Department.

47 The levy applies to telecommunications service providers with annual revenue of more than $25 million.
48 The combined total of $317.74 million also covers the payments to the contractor (Australian Communication Exchange) for the National Relay Service, which are approximately $20 million per year.
49 Amounts payable under the levy by individual services providers is proportionate to their annual revenue.
50 The figure of $414 million per annum was discussed in an exchange of letters between the Department and Telstra between 15 and 30 April 2010. The Department has provided two out of the five letters that were exchanged dated 28 and 30 April 2010. These letters identify a figure of $414 million for USO voice services but do not identify if the voice services are for STS only or for STS and payphones.
51 The cost model used was based on the ACCC Analysys Mason Cost Model.
52 The Department has been unable to locate a copy of the cost model developed by its commercial advisor.
across the full term of the TUSOPA and equated to a total value of $5.94 billion to provide STS and payphone services under the USO. The Department has been unable to provide any evidence which demonstrates that this estimate was designed to forecast Telstra’s likely costs to deliver the services into the future, or that the Department provided any advice to the Government about the reasonableness of using a point-in-time estimate to set a fixed annual fee for an extended period.

2.41 Telstra’s actual current net cost of providing the STS USO remains in dispute. Several telecommunications providers made submissions to the Productivity Commission outlining that factors like the reduction in the number of Telstra–supplied voice services in relevant geographical areas, and the lower network access prices in these areas, to suggest that Telstra’s STS USO–related net costs must have decreased over time. Conversely, Telstra advised the ANAO that it considered such submissions both understated the levels of STS usage and overlooked decreases in revenue from these services, which in Telstra’s view results in an underestimation of net costs. Telstra also contends that the model used to calculate the 2011 estimate did not accurately incorporate all USO–related ‘conditioning and overhead’ costs, particularly those relating to ‘alternative delivery platforms’ such as [radio concentrator], satellite and fibre. In May 2017, the Department established a USO taskforce to give consideration to the Productivity Commission’s 2017 report. One of the functions of this taskforce is to develop an estimated cost of delivery for both the STS and payphones USO.

**Flexibility mechanisms in the TUSOPA**

2.42 When the TUSOPA was first established a number of flexibility mechanisms were built into the Agreement. One of these is a formal review in 2021 of the technology and systems used to deliver the services as described in Modules B (STS) and C (payphones) of the agreement. This review is to commence in July 2021, and is to be conducted by an independent third party.

2.43 If as a result of this review cost reductions are identified the Department may require that Telstra prepare a proposal which outlines the anticipated net reduction in Telstra’s costs which would be achieved if the technologies or systems were deployed. The formula which is to be applied in order to calculate the net reduction in Telstra’s costs is set out in the TUSOPA.

2.44 There are also other flexibility mechanisms which allow cost savings, and adjustments to be made to the annual payment amount, where there is a change in the scope of services. These clauses can be used at any time, and are discussed in more detail in chapter 3.
3. Management of the Telstra Universal Service Obligation Performance Agreement

Areas examined
This chapter examines if the Department of Communications and the Arts (the Department) is effectively managing the contract for telephone universal service obligations (the TUSOPA) on an ongoing basis. It also examines if the performance reporting and monitoring arrangements are providing transparent information to allow the Department to determine if policy objectives are being achieved.

Conclusion
Since assuming responsibility for the TUSOPA in July 2015, the Department has been a relatively passive contract manager. The Department has not utilised the flexibility mechanisms within the contract which have the potential to reduce the annual payment amounts. The Department commenced work in May 2017, through the establishment of the USO Taskforce, to assess whether the annual fixed payments to Telstra continue to represent value for public money in the evolving telecommunications environment.

Existing performance reporting provides limited transparency as to whether contract services are achieving the stated policy objective. More specifically, because reporting provides no information on the quantity of standard telephone services that Telstra supplies solely on the basis of its universal service obligations, it is not possible to determine the extent to which the TUSOPA contributes to Australians having reasonable access to such services on an equitable basis. In relation to service quality, contract reporting indicates that, with the exception of some shortcomings in the first year of the TUSOPA in 2012–13, Telstra has met all service performance benchmarks. Neither the Australian Communications and Media Authority (ACMA) nor the Department undertakes processes to verify the accuracy of the underlying performance data provided by Telstra, which is used to determine compliance with the standard telephone customer service guarantee and payphone benchmarks.

While the TUSOPA has played a role in facilitating the involvement of Telstra in the rollout of the NBN, there is a lack of clear evidence that a net public benefit has been realised as a direct result of the introduction of the TUSOPA.

Areas for improvement
The ANAO has made two recommendations to support the ability of the Department to achieve value for money from the TUSOPA. The first recommendation relates to the use of the TUSOPA flexibility mechanisms and developing options for potential USO transitional arrangements. The second recommendation addresses the issue of the quality assurance regime relating to Telstra’s performance reporting under the TUSOPA.
Has the Department effectively managed the TUSOPA to promote value for money?

The Department has not actively managed the contract towards achieving value for money. Since assuming responsibility for the TUSOPA in 2015, the Department has established a payment process and contract management plan, however this plan is silent on the utilisation of mechanisms in the contract which provide near-term opportunities for the Department to explore the achievement of value for money. There is also no evidence that the Department has sought to utilise the flexibility mechanisms in the contract which are available to achieve cost savings or to review the scope of services.

Contract administration

3.1 Between 1 July 2012 and 1 July 2015 responsibility for the TUSOPA sat with Telecommunications Universal Service Management Agency (TUSMA). In the 2014–15 Budget, the Government announced that TUSMA’s functions would be transferred to the Department of Communications and the Arts, and on 1 July 2015 TUSMA was abolished. Documentation provided by the Department indicates that the transition was managed as a discrete project which commenced on 13 May 2014, with all activities scheduled to be completed by 30 June 2015.

3.2 In May 2015 an internal report on the transition of TUSMA’s roles and responsibilities to the Department noted the risks which had been identified in relation to the transition process, and that these would need to be closely managed through to 1 July 2015. The transition risk register identified contract management as a risk, and provided the below description:

Contract Management: contractual arrangements are insufficient to guarantee service delivery and quality of services.

3.3 For this risk, the risk register identified existing controls in place and had assessed these as ‘Adequate’. However, the register did not identify any risks which related to the ability of TUSMA to achieve value for money from the TUSOPA.

The annual payment process

3.4 Annual payments for the standard telephone services (STS) and payphone modules of the TUSOPA are made to Telstra following receipt of an invoice and the relevant performance data.\(^{53}\) ANAO testing as part of its 2016–17 financial statements audit work found that the Department has appropriate delegate approval processes in place to support the payment of the annual amounts. The Department advised the ANAO that it relies on ACMA as the regulator to provide assurance that the source data used to assess the performance of the contractor—Telstra—is free from material error. As noted in paragraph 3.24 ACMA does not undertake any assurance processes to verify the accuracy of the underlying performance data provided by Telstra.

Contract Management Documentation

3.5 After responsibility for managing the contract was transferred to the Department, the existing TUSMA contract management plan, which did not exist until January 2015, was amended

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\(^{53}\) The 2016–17 payment is required by 31 December 2017.
to: reflect the transfer of contract responsibility from TUSMA to the Department; fold the risk management plan into the document; and incorporate the Telecommunications Industry Levy (TIL) assessment milestones and key dates. The contract management plan was further revised in November 2016 to reduce the requirement to hold contract management monthly and quarterly meetings to an ‘as required basis’.

3.6 The contract management plan does not identify at what points, or under what circumstances, the Department intends utilising the mechanisms in the contract which provide opportunities to obtain additional information, or conduct an audit of Telstra’s service delivery under the contract.

Flexibility Mechanisms in the TUSOPA

3.7 The TUSOPA includes flexibility mechanisms which have the potential to improve value for money. In addition to the review mechanism discussed at paragraph 2.42, the TUSOPA includes mechanisms allowing either party to submit a proposal for cost savings (Cost Savings) and the ability to propose a change in the scope of services (Scope of Services). The Department has not provided any evidence which demonstrates that it has sought to, or considered utilising, either of these two flexibility mechanisms which can be utilised at any time. The ANAO has observed that the ability of the Department to utilise these mechanisms has been impaired by the absence of data in the performance reporting framework which could be used to estimate the impact of any proposed changes to the scope of services.

Cost Savings

3.8 Whilst annual payments under the TUSOPA are ostensibly fixed, the agreement incorporates a mechanism which enables the Department or Telstra to submit a cost savings proposal at any time for consideration by both parties. This mechanism provides opportunities for the Department to explore the achievement of value for money in the context of changing technology, market competition and consumer preferences.

3.9 In February 2014, TUSMA submitted a proposal to the Minister identifying that cost savings totalling $299 million over 20 years could be achieved by changing the scope of services. This proposal noted that mobile and broadband technologies have the technical capability to carry voice services, and that moving the provision of the STS onto these systems would have cost benefits.

3.10 This proposal was submitted at the same time that the Definitive Agreements, including the TUSOPA, were being renegotiated. The available evidence indicates that these cost savings proposals were not pursued further, and the renegotiation of the TUSOPA was instead focused on amendments to the performance management framework (which had been problematic to administer) and making amendments to the migration arrangements to reflect the change in the NBN roll out model from a Fibre to the Premises (FTTP) model to a multi-technology mix (MTM) model.

54 The Risk Register developed by TUSMA was transferred to the Department in mid-2015 and was not revised to include risks related to the ability of the Department to achieve value for money from the TUSOPA.
**Scope of services**

3.11 The TUSOPA also includes a flexibility mechanism relating to changes in the scope of services. Changes in scope can occur as a consequence of amendments to the USO provisions of the *Telecommunications (Consumer Protection and Service Standards) Act 1999* or determinations made by the Minister under that Act. Either Telstra or the Department can make a claim for a payment variation if the scope of the services set out in Module B (STS) or C (Payphones) changes, provided that the value of the increase or reduction exceeds $12 million per year for STS and $2 million per year for Payphones.

3.12 The Department’s ability to determine whether a proposed change in the scope of services would increase or decrease Telstra’s costs by the threshold amounts is dependent on an accurate understanding of the existing cost to Telstra of delivering the services. The current performance framework does not generate data which would enable the Department to make this assessment, and the Department would have to invoke a specific clause in the TUSOPA in order to obtain data from Telstra which would enable them to do so. This clause can be invoked to investigate possible non-compliance or to satisfy a Ministerial request. The TUSOPA also includes a clause which allows for the Department to audit Telstra’s performance, including the manner in which Telstra performs its obligations. This clause has not been utilised since the TUSOPA was established in 2012.

**Establishment of the USO Taskforce**

3.13 In May 2017 the Department formed a USO Taskforce to develop advice for the Minister and Government regarding the future of the USO in light of the Productivity Commission’s recommendation that the current STS and payphone USO arrangements be phased out by 2020. As at July 2017 the Taskforce’s scope had not been finalised, however the Department has advised that this Taskforce will undertake (or commission) modelling on the costs of delivering the USO to inform advice on the potential financial implications of seeking early termination, or proposing substantial changes to key terms of the contract.

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55 The TUSOPA also provides for possible reviews of payphone payments amounts every five years where the number of payphones has declined by at least 2000 since the prior potential review point. The first potential review point is 1 July 2017.

56 Clause 20 of the TUSOPA—Audit and access states that Telstra must participate in audits of the Agreement at the frequency specified by the Department (including on an ad-hoc basis) for the purpose of ensuring that the Agreement is being properly performed and administered, and may consider all aspects of Telstra’s performance including any performance indicators, benchmarks or targets.
Recommendation no.1

3.14 The Department should:

(a) determine if any of the existing flexibility mechanisms can be utilised to improve value for money outcomes while the National Broadband Network is being rolled out; and

(b) develop options for an efficient transition to any potential alternative USO delivery arrangements.

Department of Communications and the Arts’ response: In providing the following response the Department did not state whether it agreed or disagreed with the recommendation.

3.15 In the context of the recommendations of the Productivity Commission Inquiry into the Telecommunications Universal Service Obligation, the Department is considering options for further reform of the USO.

Do the performance reporting and monitoring arrangements provide transparent information on how contract services are achieving the stated universal service obligation policy objective?

Existing performance reporting provides limited transparency as to whether contract services are achieving the stated policy objective. Reporting is focused on the quality of service delivery—specifically Telstra’s compliance with service benchmarks defined in the USO statutory regime—including the time taken to provide a new STS connection, and the time taken to repair a STS or payphone fault. This indicates that, with the exception of some shortcomings in the first year of the TUSOPA in 2012–13, Telstra has met all service performance benchmarks. However, because reporting provides no information on the quantity of STS that Telstra supplies solely on the basis of its universal service obligations, it is not possible to determine the extent to which the TUSOPA contributes to the Australian public having reasonable access to STS on an equitable basis. Further, the existing reporting does not provide data on Telstra’s net cost of supplying the STS and payphone USO. Neither ACMA nor the Department undertakes assurance processes to verify the accuracy of the underlying performance data provided by Telstra that is used to calculate compliance with the benchmarks.

Performance reporting

3.16 Under the TUSOPA, Telstra must deliver USO services in accordance with a set of performance standards, benchmarks and any other requirements set out in the USO statutory regime. While the agreement provides that ‘to the extent possible ... [performance reporting] ... will be consistent with Telstra’s regulatory reporting obligations’, the Department can require that Telstra provide additional reports or other information where it considers ‘it necessary to investigate any possible non-compliance by Telstra ... or to satisfy a Ministerial request’. Since assuming responsibility for contract administration in July 2015, the Department has not
requested such additional reporting or information from Telstra, although it does receive some information beyond what is required by the regulatory reporting obligations.\textsuperscript{57}

\textbf{Standard Telephone Services}

3.17 The performance standards and benchmarks associated with Telstra’s provision of STS under the TUSOPA are set out in the \textit{Telecommunications (Customer Service Guarantee) Standard 2011}, and summarised for the purpose of this report at Table 3.1. In considering the appropriate performance regime for the delivery of the STS USO through the TUSOPA, the Department advised the Minister in 2011 against introducing USO–specific standards and benchmarks. It considered that the Customer Service Guarantee (CSG), combined with stronger enforcement mechanisms and tightened exemption criteria, would achieve the policy goal of improved customer service. The Department also noted that to introduce USO–specific measures would impose a significant new compliance burden on Telstra due to the need to alter its existing systems.

\textbf{Table 3.1: Customer Service Guarantee performance standards and benchmarks}

<table>
<thead>
<tr>
<th>Relevant service</th>
<th>Performance standard</th>
<th>Performance benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connect Telstra service where there is a previous connection\textsuperscript{a} (all areas)</td>
<td>Within 2 working days</td>
<td>Must meet or exceed standard in 90% of cases</td>
</tr>
<tr>
<td>Connect Telstra service where there is no previous connection: Urban areas (centre with population more than 10 000)</td>
<td>Within 5 working days where necessary infrastructure available; otherwise 20 working days</td>
<td>Must meet or exceed standard in 90% of cases</td>
</tr>
<tr>
<td>Connect Telstra service where there is no previous connection: Major rural area (centre with population between 10 000 and 2500)</td>
<td>Within 10 working days where necessary infrastructure available; otherwise 20 working days</td>
<td>Must meet or exceed standard in 90% of cases</td>
</tr>
<tr>
<td>Connect Telstra service where there is no previous connection: minor rural area (centre or locality with population between 2500 and 200)</td>
<td>Within 15 working days where necessary infrastructure available; otherwise 20 working days</td>
<td>Must meet or exceed standard in 90% of cases</td>
</tr>
<tr>
<td>Connect Telstra service where there is no previous connection: remote (population less than 200)</td>
<td>Within 15 working days where necessary infrastructure available; otherwise 20 working days</td>
<td>Must meet or exceed standard in 90% of cases</td>
</tr>
<tr>
<td>Repair fault: Urban</td>
<td>By the end of the 1st full working day</td>
<td>Must meet or exceed standard in 90% of cases</td>
</tr>
<tr>
<td>Repair fault: Major or minor Rural</td>
<td>By the end of the 2nd full working day</td>
<td>Must meet or exceed standard in 90% of cases</td>
</tr>
<tr>
<td>Repair fault: Remote</td>
<td>By the end of the 3rd full working day</td>
<td>Must meet or exceed standard in 90% of cases</td>
</tr>
</tbody>
</table>

\textsuperscript{57} Notably, the reporting includes performance against individual payphone standards, and information on the number of Telstra STS disconnected from the copper network as part of the NBN fixed line rollout.
### Relevant service Performance standard Performance benchmark

| Appointment-keeping | Must not miss agreed appointment time\(^b\) by more than: Urban area—15 minutes Major rural—15 minutes Minor rural—45 minutes | Must meet or exceed standard in 90% of cases. |

Note a: Only applicable where automatic reconnection or reactivation can be achieved without the need for Telstra to do any other connection work at the customer premises, the local telephone exchange, or any places in-between.

Note b: An ‘appointment time’ may a period of up to 4 hours (for example 8am-12pm) rather than a specific time.

Source: Adapted from Telecommunications (Customer Service Guarantee) Standard 2011.

### 3.18 Unlike other retailers providing STS, Telstra is not permitted to negotiate with customers to waive CSG protections.\(^{58,59}\) However, Telstra (and other STS providers) may claim exemptions from complying with the CSG performance standards and benchmarks where non-compliance is due to circumstances ‘beyond control’. Typically these are mass service disruptions due to ‘extreme weather conditions’ as defined in the Telecommunications (Customer Service Guarantee) Standard 2011. In 2015–16, Telstra claimed 60 exemptions, with 49 due to extreme weather conditions.\(^{60}\) The average duration of the Telstra exemption was 36 days. For connections and faults, exemptions effectively ‘stop the clock’ for the period within which the connection or repair must be made.

### 3.19 While ACMA (as the industry regulator) has visibility over the number of exemptions, the duration of the exemptions, and the estimated number of STS affected by the exemptions, neither it nor the Department receive information on the actual impact of the exemptions on Telstra’s performance under the CSGs. Thus while an estimated 263,588 Telstra services were covered by a CSG exemption at some point in 2015–16, no information is available (for example) on the proportion of the 602,492 reported faults in Telstra-provided STS that had their timeframe for repair extended through an exemption.\(^{61}\) The estimated number of Telstra STS affected by exemptions varies significantly from year to year. The 263,588 STS affected by exemptions in 2015–16 was the lowest since 2009–10, and some 60 per cent fewer than for 2014–15.

### 3.20 To meet its performance obligations under the TUSOPA, Telstra must achieve the timeframe standards for connections, repair and appointment-keeping in 90 per cent of cases. As shown below at Figure 3.1, with the exception of new connections in 2012–13, Telstra has reported that it has met all CSG benchmarks since the commencement of the TUSOPA.\(^{62}\) The

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58 Non-Telstra STS providers may for example seek a waiver of CSG protections as part of a trade-off for a cheaper service. In 2015–16, there were 1.024 million waivers obtained. By comparison, there were 6.105 million services where the CSG applied, with Telstra providing 4.361 million of these.

59 Some STS provided by Telstra will nonetheless be exempt from the operation of the CSG because of the Telecommunications (Customer Service Guarantee) Standard 2011. Notably, this applies where a customer has more than five Telstra-supplied STS.

60 The number and causes of Telstra’s exemption claims were consistent with the two largest other STS providers, iiNet (now TPG) and Optus.

61 Telstra advised the ANAO that they (and other carriers subject to the CSG Benchmarks) are not required to report this information and Telstra therefore does not specifically collect it.

62 While the CSG has been place for some time, prior to October 2011 it had no regulatory backing and ACMA could take no action for poor performance or failure to provide performance information.
failure in 2012–13 resulted in ACMA imposing an administrative penalty on Telstra of $510,000.63 More specific information on Telstra’s performance against the CSG benchmarks in urban, rural and remote areas is shown in Appendix 4.

Figure 3.1: Telstra performance nationally – all CSG standards

![Graph showing Telstra performance nationally – all CSG standards](image)

Source: ACMA.

3.21 While not part of the TUSOPA performance metrics, ANAO analysis of Telstra’s reporting shows (at Figure 3.2) that the number of reported faults as a proportion of services in operation has continuously dropped over the term of the TUSOPA in urban and rural areas. The performance trend in remote areas has been more mixed. In 2015–16, the proportion of reported faults to services in remote areas was more than 60 per cent higher than the ratio in urban areas (21.3 per cent compared to 13.1 per cent).64

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63 The TUSOPA also has provisions for sanctions against Telstra should it commit a ‘material breach’ which potentially would allow up to $20 million of future payments to be withheld from Telstra. However, since in this case ACMA took enforcement action under its statutory powers, the ‘double jeopardy’ provisions in the TUSOPA prevented TUSMA from taking any additional specific action in relation to the underperformance and any findings being made.

64 A larger proportion of faults in remote and rural areas are consistent with Telstra’s reporting against the Network Reliability Framework. For 2015–16, 1.62 per cent of standard telephone services in rural and remote areas were reporting as having a fault in any given month, compared to 1.46 per cent in urban areas.
Figure 3.2: Ratio of the number of faults to the number of Telstra standard telephone services (expressed as a percentage)

Source: ACMA.

**Quality assurance of performance reporting data**

3.22 In terms of the collection and reporting of CSG performance data, Telstra advised the ANAO:

At each step of the CSG process, the data is collected automatically and compiled into databases which are designed to automate support for CSG payments and benchmarks records. The CSG data is then checked by a mixture of robot and manual review processes. Telstra performs compliance, data checking and review process on all connections as another verification layer. The process involves all tickets, including Tickets of Work (ToW) that missed [the CSG target] ... a dedicated team part of Telstra Operations is responsible for performing the reconciliation process. The team requires access to multiple tools and Telstra systems to perform this function.

3.23 Given that the STS USO reporting is based on the CSG regulatory reporting requirements, the Department and ACMA receive the same reporting. Each independently undertakes recalculations of the data supplied by Telstra to assess its compliance with the performance benchmarks. They then compare the results of the calculations to see if they are consistent.

3.24 Neither ACMA nor the Department undertakes any assurance processes to verify the accuracy of the underlying performance data provided by Telstra that is used to calculate compliance with the benchmarks.\(^{65}\) ACMA advised the ANAO that its assurance processes focus only on comparing Telstra’s reporting to previous years so as to identify ‘any anomalies which may indicate an error and [that they did not] have another source of information against which we check the data provided by Telstra.’ ACMA has the statutory power to commission an audit into the accuracy of the CSG (and payphone) performance reporting, ‘where it forms a view on

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\(^{65}\) ACMA’s predecessor, the Australian Communications Authority (ACA), did commission a CSG ‘data verification’ report in 2005. That report concluded that Telstra had ‘adequate systems and processes’ in place and that the testing of a sample Telstra’s CSG performance data from these systems showed it was ‘consistent with performance data reported to the ACA.’
reasonable grounds that an audit is necessary’. ACMA advised the ANAO that ‘neither the data provided by Telstra nor any other developments’ to date have indicated the need for such an audit. However, during the course of the ANAO audit, ACMA amended the relevant risk register to explicitly recognise the risk of industry providing ‘inaccurate data’ in relation to ‘performance compliance issues’. The Department’s November 2016 contract management plan and associated risk register does not identify the possibility of inaccurate data as a risk.

**Payphones**

3.25 The performance regime applying to Telstra’s provision of payphones under the TUSOPA is also set out in legislative instruments. Different fault repair standards and benchmarks apply to payphones as a whole as compared to individual payphones. Notably, the standard for repair of payphones as a whole is shorter, but need only be met in 90 per cent of cases in urban and rural areas, and 80 per cent in remote areas. The substantially longer timeframe for repair of individual payphones must be met in 100 per cent of cases. Standards for maximum time installation of new payphones only apply to individual payphones, and again must be met in 100 per cent of cases. The Department receives detailed reporting only in relation to fault repair performance applying to payphones collectively.

<table>
<thead>
<tr>
<th>Service</th>
<th>Performance standard</th>
<th>Performance benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repair fault: urban area</td>
<td>within 1 working day</td>
<td>Must meet or exceed standard in 90% of cases.</td>
</tr>
<tr>
<td>Repair fault: major &amp; minor rural combined</td>
<td>within 2 working days</td>
<td>Must meet or exceed standard in 90% of cases.</td>
</tr>
<tr>
<td>Repair fault: remote area</td>
<td>within 3 working days</td>
<td>Must meet or exceed standard in 80% of cases.</td>
</tr>
</tbody>
</table>

Source: Adapted from Telecommunications Universal Service Obligation (Payphone Performance Benchmarks) Instrument (No.1) 2011.

3.26 It should be noted that under the *Telecommunications Universal Service Obligation (Payphone Performance Benchmarks) Instrument (No.1) 2011*, where a payphone can be operated via multiple calling mechanisms (eg coins, phone-card, credit card, operator assistance or reverse charge calling), all relevant calling mechanisms must be inoperable before the phone is considered to have a fault for reporting purposes.

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67 In relation to the revised register, ACMA also advised the ANAO that ‘we intend to consider the need for further quality assurance of the accuracy of the data we collect from Telstra and other providers in relation to the ACMA’s scrutiny of CSG and Payphone performance. If the risk is assessed as material, we will institute one or more enhanced quality assurance measures’.

Similarly to the STS, Telstra may claim exemptions from complying with the performance standards and benchmarks where non-compliance is due to circumstances ‘beyond control’. The number of payphone faults covered by exemptions has more than halved between 2012–13 (2086) and 2015–16 (956). However, the number of exemptions in remote areas as a proportion of total faults remains reasonably significant at 19.2 per cent. According to Telstra data provided to the ANAO, 18 per cent of faults nation-wide where exemptions applied in 2015–16 were nonetheless repaired within the ordinary payphone performance standard timeframe.

While not part of TUSOPA performance metrics, ANAO analysis of Telstra’s reporting shows (at Figure 3.4) that the number of reported faults as a proportion of payphones in operation has varied from year to year in urban, rural and remote areas, although in all cases there was a sharp drop in the ratio in 2015–16. In 2015–16, the proportion of reported faults to payphones in remote areas was double that in urban areas (183.7 per cent compared to 91.7 per cent).

The Telecommunications Universal Service Obligation (Payphone Performance Standards) Instrument (No.1) 2011 sets performance obligations with respect to individual payphones. These
Management of the Telstra Universal Service Obligation Performance Agreement

relate to both fault repair times and installation times, with the required benchmark set at 100 per cent compliance with the standard. Reporting to the Department is in the form of a letter from Telstra confirming whether it has met the 100 per cent benchmark, and noting details of those payphone installations or repairs that did not meet the time standard. For 2015–16, Telstra reported that it met all benchmarks with the exception of two fault repairs.

Quality assurance of performance reporting data

3.30 Telstra advised the ANAO that the collection and reporting of payphone performance data was through a fully automated system. Telstra advised that payphone performance was monitored through ‘jeopardy officers’ who are responsible for liaising with ‘contractors, contractor management teams...Telstra Testers, Service Delivery areas, and other stakeholders’ and tracking ‘requests for exemptions and keeping records...and providing reporting to Telstra Payphone Management and contractors as required.’

3.31 As is the case for the STS CSG performance reporting, ACMA and the Department both independently undertake re–calculations of the data supplied by Telstra to assess its compliance with the performance benchmarks. They then compare the results of the calculations to see if they are consistent. However, neither undertakes any assurance processes regarding the accuracy of the data itself.

Recommendation no.2

3.32 The Department should review whether existing arrangements provide an appropriate degree of assurance that Telstra’s standard telephone services and payphone reporting is accurate and is an appropriate basis from which to assess Telstra’s performance under the TUSOPA and make annual payments. An initial review should be completed in time to allow to any resulting changes to be implemented before making any payment for the 2016–17 financial year.

Department of Communications and the Arts’ response: In providing the following response the Department did not state whether it agreed or disagreed with the recommendation.

3.33 The Department has already reviewed existing arrangements and is now implementing a strengthened contract management approach, which includes an enhanced assurance regime, within the terms of the current TUSOPA.

Have any net public benefits been realised by introducing the TUSOPA?

There is a lack of clear evidence that a net public benefit has been realised as a direct result of the introduction of the TUSOPA. The TUSOPA has played a role in facilitating the involvement of Telstra in the rollout of the NBN. The Productivity Commission’s 2017 report into the future direction of the USO concluded that the USO is no longer serving the best interests of the Australian community.

3.34 The introduction of the TUSOPA and accompanying changes to the underlying statutory USO regimes has seen Telstra improve its performance standards in relation to the telephone customer service guarantee and payphone benchmarks as compared to previous years. Telstra
now receives a significantly increased annual payment as compared to immediately before the TUSOPA, including $100 million per year from public funds.\textsuperscript{69}

3.35 The rationale for introducing a contract-based USO, as articulated in the Explanatory Memorandum to the \textit{Telecommunications Legislation Amendment (Universal Service Reform) Bill 2011}, was to facilitate a transition to the competitive supply of universal service and other public policy telecommunications outcomes in the context of changes to the telecommunications market resulting from the NBN. However, due to the extended term of the TUSOPA, the Agreement represents a barrier to the introduction of competition to the delivery of USO services inside of the NBN fixed line network; and as noted in chapter 2, the copper continuity obligation provisions of the TUSOPA also limits flexibility in relation to how standard telephone services can be delivered in areas outside the NBN fixed line network. As further noted in chapter 2, the Australian Government is faced with the risk of a significant compensation claim by Telstra should the Government accept the Productivity Commission’s recent recommendation that TUSOPA be terminated by the time the NBN is rolled out in 2020.

3.36 This said, the TUSOPA has played a role in facilitating Telstra’s involvement in the rollout of the NBN and thereby contributing to broader changes in the Australian telecommunications sector. The Department advised the ANAO that the structural framework of telecommunications markets is still in the midst of transition, and the benefits of the current contractual arrangements (as opposed to purely regulatory mechanisms) will be best assessed closer to the end of this transition process.

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\textsuperscript{69} The $100 million also covers payments to Telstra under other parts of the TUSOPA, such as the emergency (triple zero) call service, which are outside the scope of this audit. While payments under these other parts may vary from year to year, the USO payments generally constitute 80 to 90 per cent of the total TUSOPA annual payments.
Appendices
Appendix 1  Responses from the entities

Australian Government
Department of Communications and the Arts

Dr Heather Smith PSM
Secretary

Mr Grant Hehir
Auditor-General
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Mr Hehir

Performance Audit: Management of the contract for telephone universal service obligations

I am writing in regard to the email of 7 August 2017 from the Australian National Audit Office (ANAO) providing a revised audit report on the Management of the contract for telephone universal service obligations (USO).

The Department notes the ANAO’s finding that the Telstra Universal Service Obligation Performance Agreement (TUSOPA) supports the achievement of the stated USO policy objective of providing reasonable access to the standard telephone service and payphones. Telecommunications are vital to Australia’s economic development and a critical enabler of social inclusion, and the USO has been an important policy tool since the early 1990s.

The Department acknowledges that there is always opportunity to improve its management of a complex contract such as the TUSOPA. To this end, earlier this year, the Department consolidated all functions related to the administration and management of the TUSOPA into a single area (the Consumer Safeguards Branch). This consolidation brings together contract management expertise and knowledge of all modules of the TUSOPA to ensure the effective management of this significant agreement.

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While the Department is implementing a strengthened contract management regime, it must be acknowledged that the scope for improvement is constrained by the history and design of the TUSOPA contract itself.

As indicated by the Productivity Commission and the ANAO itself, the TUSOPA is one of eight separate but interrelated agreements between the Government, Telstra and NBN Co Limited, which were designed to support the then Government’s broader package of telecommunications reform, the implementation of the National Broadband Network (NBN) and the structural separation of Telstra. Decisions regarding the 20 year contract term and limitations on Telstra’s use of the NBN fixed wireless and satellite services were informed by consideration of the overall outcomes that the then Government was seeking to achieve.

The Department considers that the ANAO has drawn a number of conclusions that do not sufficiently take account of this policy context, nor demonstrate an understanding of how network infrastructure is costed or managed.

For example, the ANAO has concluded that the contract does not reflect value for money principles, specifically, that the fixed annual fee based on 2009-10 costs does not reflect the demonstrated decline in demand for USO services. However, the basis for this conclusion is not apparent.

Infrastructure cost models are highly complex and comprise a range of variables. For example, in the context of the TUSOPA, key factors to be considered include the cost of maintaining the copper network in the fixed wireless and satellite footprints over the 20 year life of the contract, and the impact on costs of declining demand for services delivered using that infrastructure. Given the age of the copper network and its location in remote and regional Australia, the cost of maintenance is likely to increase over time. In the absence of analysis demonstrating how these factors interact and their impact on overall costs, it is not clear to the Department how the ANAO has reached its conclusion that the TUSOPA does not reflect value for money.

The NBN has recently reached 50 per cent roll out and is on track for completion by 2020, with customers to be migrated up to 18 months after that time. This is a critical milestone, and the Department is leading work to develop options for Government regarding future delivery of USO services. In undertaking this work, a guiding principle will be to ensure that an acceptable, cost-effective alternative solution is available before existing arrangements are changed. This is essential to ensure that the community continues to have access to critical telecommunications infrastructure.

As requested in the ANAO’s email, attached is a short summary of our response and our formal response to the recommendations. If you wish to discuss the response, please contact Pauline Sullivan, First Assistant Secretary, Market Reforms, by phone on (02) 6271 1913, or by email at pauline.sullivan@communications.gov.au.

Yours sincerely

Heather Smith
19 September 2017
Summary of agency responses

The Department notes the ANAO’s finding that the Telecommunications Universal Service Obligation Performance Agreement (TUSOPA) supports the achievement of the stated USO policy objective of providing reasonable access to the standard telephone service and payphones.

The Department acknowledges that there is always scope to improve management of a complex contract such as the TUSOPA. The Department has already implemented changes to ensure more effective management of this significant agreement and the ANAO’s recommendations will be considered in the context of achieving improvements.

The Department notes the ANAO’s comments regarding the establishment of the TUSOPA. The TUSOPA is one of a number of interrelated agreements between the Government, Telstra and NBN Co Limited, which were designed to support a broader package of telecommunications reform, the implementation of the National Broadband Network, and the structural separation of Telstra.

The Department is developing options to advise Government on future delivery of USO services.
25 August 2017

Ms Lisa Rauter
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

By email to: OfficeoftheAuditorGeneralPerformanceAudit@ao.gov.au


Dear Ms Rauter

Management of the contract for telephone universal service obligations

Thank you for providing the proposed report Management of the contract for telephone universal service obligations under section 19 of the Auditor-General Act 1997.

The Australian Communications and Media Authority (the ACMA) notes that the proposed report does not direct any recommendations for improvement to the ACMA. Accordingly, this response simply provides some contextual detail about the ACMA’s approach to the performance data provided by Telstra in relation to its universal service obligation.

The ACMA does not have any functions or powers associated with the Telstra Universal Service Obligation Performance Agreement (TUSOPA).

The ACMA collects information under the Telecommunications (Customer Service Guarantee) Record-Keeping Rules 2011 (CSG RKRs) for the purpose of assessing whether qualifying carriage service providers have met the performance benchmarks set out in the Telecommunications (Customer Service Guarantee – Retail Performance Benchmark) Instrument (No. 1) 2011. In addition, the ACMA collects information under the Telecommunications (Payphone Performance Benchmark) Record-Keeping Rules 2012 (Payphone RKRs) for the purpose of assessing whether Telstra has met the performance benchmarks set out in the Telecommunications Universal Service Obligation (Payphone Performance Benchmark) Instrument (No. 1) 2011.

In accordance with subsection 529(4) of the Telecommunications Act 1997, the ACMA is not permitted to exercise its powers to make a record keeping rule (RKR) unless the records being sought are relevant to the performance by the ACMA of any of the ACMA’s telecommunications functions, or the exercise by the ACMA of any of the ACMA’s telecommunications powers.

The ACMA scrutinises customer service guarantee (CSG) and payphone performance data for the purposes of assessing compliance with the regulatory obligations set out in the Telecommunications (Consumer Protection and Service Standards) Act 1999, consistent with the ACMA’s powers and functions, rather than for any purpose related to the management of the TUSOPA.
The CSG and Payphone RKRs respectively permit the ACMA to require Telstra to engage an external auditor to independently audit its compliance, but the ACMA cannot exercise this right unless it forms the view, on reasonable grounds, that an audit is necessary.

The ACMA takes a risk-based approach to the monitoring of compliance with regulatory obligations that takes account of the appropriate and proportionate use of public resources and imposition of requirements on telecommunications providers. If the need for further quality assurance of the data we collect from Telstra or other participants becomes apparent from our monitoring be assured that we will respond promptly.

The ACMA thanks the ANAO for the opportunity to comment on the proposed report.

Yours sincerely

Richard Bean
Acting Chairman
Telstra response to AAO audit report

Summary

The Universal Service Obligation (USO) is national and general in scope. The telephone USO requires Telstra to establish and maintain the infrastructure and other capabilities necessary to meet this obligation, on request, at standard prices, at any time, literally anywhere in the country.

The guarantee of a voice service is important everywhere in the country, but we know it is particularly important in regional, rural and remote Australia where there are fewer alternative communication services available.

Telstra has always received a single annual payment to help maintain its ability to meet the obligation. Telstra does not receive individual payments to connect each premises on a per-premises basis.

The Commonwealth pays Telstra a fixed annual amount each year, not indexed. It therefore has absolute certainty of payments over the life of the contract. Telstra bears all the cost risk under this model. This is appropriate given Telstra is best placed to manage that risk.

The USO contract requires Telstra to maintain its copper network outside the NBN fixed line footprint for the delivery of USO telephone services. That is why changes in the number of voice services in operation over time do not have a material effect on Telstra’s costs of meeting the USO.

If any cost saving measures are identified under the relevant mechanisms in the contract it is in both parties’ interest to implement them. However, given the nature of the obligation, including the necessity to maintain the networks used to deliver it, the scope for cost saving is limited.

Taxpayers have also benefited enormously from the broader agreement between the Commonwealth, Telstra and the NBN. The USO contract helped to secure Telstra’s participation in the roll-out of the NBN, without which its cost would have been substantially higher.

Telstra endorses the AAO’s recommendation that the USO Taskforce should develop options for an efficient transition to any potential alternative USO delivery arrangements. A great deal of planning will be needed to ensure any transition is done smoothly and efficiently for customers.

Telstra response to AAO audit report

The Universal Service Obligation (USO) is national and general in scope, covering telephones and payphones. The telephone USO requires Telstra to provide a telephone service to any residential or business premises within connection and fault repair timeframes set out in regulation. This in turn requires Telstra to establish and maintain the infrastructure and other capabilities necessary to meet this obligation, on request, at standard prices, at any time, literally anywhere in the country. The guarantee of a voice service is important everywhere, but we know it is particularly important in regional, rural and remote Australia where alternative forms of communication are less widely available.

Telstra has always received a single annual payment to help maintain its ability to meet the obligation. Telstra does not receive individual payments to connect the first voice service in each premises on a per-premises basis. That is why Telstra has never made the substantial investment that would be required to develop the capability to count the number of USO voice services in market and track them over time. Such a capability would add no value to the efficient management of the contract but would increase its costs.

The AAO’s findings imply that in order to meet value for money principles there must be a direct and explicit relationship between the number of USO telephone services in operation, the individual cost of providing each of those services, and payments under the USO contract. But this ignores the relative value of the risks to each party to the contract as well as the general nature of the obligation which is reflected in the single annual payment.
The Commonwealth pays Telstra a fixed annual amount each year, not indexed. It therefore has absolute certainty of payments over the life of the contract. Telstra bears all the cost risk under this model. This is appropriate given Telstra is best placed to manage that risk. Under a per-promises payment model, the Commonwealth would bear more of the cost risk despite being less able to manage it. This would be a bad outcome for taxpayers.

The USO contract requires Telstra to maintain its copper network outside the NBN fixed line footprint for the delivery of USO telephone services. That is why changes in the number of voice services in operation over time do not have a material effect on Telstra’s costs of meeting the USO. In fact, not costs must be rising because the copper network, which Telstra is required to maintain under the contract, is aging while revenues from voice services are declining along with the number of services.

The contract includes mechanisms for identifying measures that save costs for Telstra and passing part of these savings on to the contributors of USO funding, including Telstra, the Commonwealth and other telecommunications carriers (in order of the size of their contribution). The Department is criticised for not using these measures, but that criticism ignores the fact that if any such measures had been identified it would have been in both parties’ interest to implement them.

More generally, Telstra is continually reviewing its processes and systems to find productivity improvements. However, given the nature of the obligation, including the necessity to maintain the networks used to deliver it, and the aging and highly integrated nature of the networks and IT systems associated with meeting the USO, the reality is that the scope for cost saving is limited. If that changes over time the incentives built into the contract are for shared cost savings to be realised.

In addition to the benefits of the single annual payment structure for all parties outlined above, taxpayers have benefited enormously from the broader agreement between the Commonwealth, Telstra and the NBN. As the ANAO’s report rightly identifies, the USO contract was a necessary element of the agreement to secure Telstra’s participation in the roll-out of the NBN, without which the cost of the NBN would have been substantially higher.

Telstra endorses the ANAO’s recommendation that the USO Taskforce should develop options for an efficient transition to any potential alternative USO delivery arrangements. If the Government decides to follow the Productivity Commission’s proposal to transition the USO from Telstra to the NBN once it is fully rolled out, a great deal of planning will be needed to ensure the transition is done smoothly and results in customers receiving better services more efficiently and commensurate savings for Telstra and other contributors to USO funding.

Telstra Corporation Ltd
30 August 2017
Appendix 2  Audit work performed

1. To conduct the performance audit into the management of the contract for telephone universal service obligations, specifically standard telephone services (STS) and payphones the following work was performed. The outcomes from this work have informed the findings, conclusion and recommendations that are made in the audit report and have been undertaken in accordance with the ANAO Auditing Standards.

2. Key documents held by the Department of Communication and the Arts (the Department), where available, were obtained and reviewed to assess the effectiveness of the Department’s management of the contract for telephone universal service obligations and form the basis for the audit opinion outlined in the audit report. These include the original and revised Telstra USO Performance Agreement, documents recording, or relating to, decisions of the Australian Government between 2010 and 2012; advice provided by the Department to the Minister; strategic planning and consultation documents, contract negotiation records, contract management plans, risk registers, and selected email correspondence involving senior Departmental officers. Telstra’s contractual performance reporting to the Department was reviewed, as well as the Department’s assessment of the reporting and correspondence with the Australian Communications and Media Authority regarding it. Some additional analysis of the reporting was undertaken to produce performance related information that is not publicly reported by either the Department or ACMA. A range of Telecommunications Universal Service Management Agency records from 2012 to 2015 that were retained by the Department were obtained and reviewed.

3. A range of ACMA records relating to the operation of the USO statutory regime, including Telstra’s performance reporting and ACMA’s assessment of it, were obtained and reviewed. These included briefing papers considered by ACMA’s governing board.

4. Information relating to the delivery of standard telephone and payphone services was also obtained directly from Telstra.

5. The audit was open for public contributions for approximately 12 weeks through the ANAO’s web-based citizen input facility. One contribution by a telecommunications service provider was received during this period. Input was also obtained directly from the peak consumer body, the Australian Communications Consumer Action Network (ACCAN).

6. During the audit fieldwork, the audit team maintained contact with the Productivity Commission regarding their inquiry process. A range of submissions to the Commission, including from industry, government and stakeholders were reviewed to provide context on policy and practical issues relating to telecommunications universal service policy. The Office for the Telecommunications Ombudsman was also approached regarding complaint data.
Appendix 3  The four Definitive Agreements between the Commonwealth and Telstra

Table A.1: The four Definitive Agreements between the Commonwealth and Telstra

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>TUSOPA</td>
<td>The TUSOPA aims to ensure:</td>
</tr>
<tr>
<td></td>
<td>• Continued delivery of the USO to ensure that STS and Payphones are reasonably accessible to all people in Australia on an equitable basis;</td>
</tr>
<tr>
<td></td>
<td>• For premises not served by the NBN fixed line network, continued reasonable access to the existing copper access network for STS; and</td>
</tr>
<tr>
<td></td>
<td>• That appropriate safety net arrangements are in place that will assist the migration of voice-only customers to NBN fibre service as Telstra’s copper customer access network is decommissioned.</td>
</tr>
<tr>
<td>Retraining Funding Deed</td>
<td>Sets out the terms on which the Commonwealth will provide funding for Telstra to retrain certain staff over an 8 year period.</td>
</tr>
<tr>
<td>Information Campaign and Migration Deed</td>
<td>Sets out the residual commitments by the Commonwealth relating to the valuation of the proposal and the migration of customers to the NBN.</td>
</tr>
<tr>
<td>Commonwealth Guarantee</td>
<td>Provides a guarantee to Telstra in relation to NBN Co’s obligations under the four definitive agreements between Telstra and NBN Co.</td>
</tr>
</tbody>
</table>

Source: ANAO analysis.

Table A.2: Breakdown of value in relation to the Definitive Agreements and associated Government policy commitments

<table>
<thead>
<tr>
<th>Agreement/policy commitment</th>
<th>Commonwealth</th>
<th>NBN Co</th>
<th>Estimated value to Telstra $ billion</th>
<th>Per cent of total estimated value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disconnection payments sale of lead-in-conduits</td>
<td>n/a</td>
<td>✓</td>
<td>4.0</td>
<td>37</td>
</tr>
<tr>
<td>Infrastructure payments</td>
<td>n/a</td>
<td>✓</td>
<td>5.0</td>
<td>45</td>
</tr>
</tbody>
</table>

Value attributed to NBN Agreements

|                         | 9.0          | 82                      |

TUSMA Services

|                         | ✓            | n/a                     | 0.7                                 | 6                                |

Housing estate fibre provision responsibilities (Greenfields)

|                         | ✓            | n/a                     | 0.3                                 | 3                                |

Other Government commitments

|                         | ✓            | n/a                     | 1.0                                 | 9                                |

Value attributed to Government policy commitments

$2.0                       | 18           |

Total value to Telstra

$11.0                      | 100          |

Note a: These values are those contained in Telstra’s announcement to the Australian Stock Exchange in June 2011. They are expressed as post-tax Net Present Value (NPV).

Source: ANAO analysis from Telstra announcement to the ASX.
Appendix 4  Telstra’s Customer Service Guarantee standards performance by geographical region

Figure A.1:  Standard Telephone Service – Telstra new connections – per cent meeting the timeframe performance standard

New Connections – Telstra Performance by Area

Source: ACMA.

Figure A.2:  Standard Telephone Service – Telstra fault repair – per cent meeting the timeframe performance standard

Fault repair – Telstra Performance by Area

Source: ACMA.