Broadband Investment Fund Q&A (supplied by MED)

New Zealand's Digital Pathway: A Fast Broadband Future

More details are available at: www.med.govt.nz/broadbandinvestment

Broadband Investment Fund

1. What is the government funding?

The Government is funding a $500 million plus investment as a first five year down payment on fast broadband to the home. Of this, the newly established Broadband Investment Fund has $325 million operating and $15 million capital funding available over a maximum of five years. Of this funding:

- up to $250 million operating over 5 years has been set aside for the purposes of supporting the delivery of high-bandwidth services to businesses and key users in the health and education sectors (health organisations, tertiary institutions, schools and municipal entities);

- up to $75 million operating over 5 years has been set aside to extend the reach of broadband into under-served regions; and

- up to $15 million capital funding in 2008/09 has been set aside to support the deployment of another international cable.

The government has agreed these priority areas and indicative funding levels. The phasing of the funding is flexible so as to allow government to re-evaluate funding priorities as investment occurs.

The Broadband Investment Fund is the key initiative in a wider Digital Strategy package of over $500 million.

2. What are the key design features?

Leveraged
- Using the maximum private funds available along with a highly contestable fund (grants-based) to generate a higher leverage than a single capital tender.

Open Access
- The BIF guarantees access to third parties at the passive information level (e.g. ducts, dark fibre) as well as active networks (see 6. below).

Technology neutral

- Uses the best available technology allowing the best fit between the needs of users in the regions concerned. This is more appropriate that taking an overly-prescriptive approach in such a dynamic sector.

Integrated

- This Broadband Investment Fund is well supported by other Digital Strategy initiatives focused on improving user capability and outcomes for businesses and communities, such as demand aggregation initiatives, the Community Partnership Fund (additional $6 million allocated in 2008/09) and the Nextspace 3D cluster.

Credible

- This package complements the robust, pro-competitive framework which has been the hallmark of this government's stewardship of ICT. Without the current regulatory framework, access would be constrained to core networks. New Zealand's regulatory framework is now at international best practice standards and we are already starting to see the results in the OECD rankings released this week.

3. How does this relate to the Draft Digital Strategy 2.0?

The Draft Digital Strategy 2.0 identifies "connection" – in terms of the widespread availability of fast and affordable broadband meeting the needs of New Zealanders – as a critical enabler of New Zealand's digital future. As such, the strategy sets a long-term vision for deploying fibre-to-the-home. Over the next five years it is proposed that the government pursue an ambitious down payment on fibre, or equivalent high bandwidth technologies, as part of a ten year plan for fibre-to-the-home. This builds on the revolutionary regulatory changes already made, and will ensure major additional investment and competition by the private sector over this period.

The Digital Strategy 1.0 and 2.0 complement connection with user capability and digital content enhancement.

4. Why is the government committing to this package?

Although recent telecommunications regulatory changes have set the foundation for greater competition and investment in the telecommunications sector, more targeted policies are necessary to build on these gains. It is apparent that the most effective means of leveraging substantial private sector investment in key aspects of broadband infrastructure is through the provision of public seed funding.

This package has been carefully designed to facilitate high speed broadband connections to businesses in urban centres and key users in the health and education sectors, to extend the reach of broadband into underserved regions, to improve the resilience of New Zealand's international connections, and to utilise the scale of the government's purchasing of broadband services to promote competition and investment. This $500 million plus package represents a first five year 'down payment' on our vision of having fast broadband to New Zealand homes.

5. Why fund broadband?

Infrastructure that supports advanced broadband services enables high-value, weightless products created in New Zealand, such as research, design, digital media, branding and marketing, to be provided to customers anywhere in the world. This is vital for New Zealand because of our small size and distance from our markets, and it is essential if New Zealand is

to be successful in positioning itself as an attractive location for investment and skills, and for those parts of international supply chains that relate to high-value products and activities.

In addition, greater utilisation of advanced broadband services by firms and households is likely to lift New Zealand's productivity and will help meet other government goals related to improving our connectivity to the rest of the world and environmental sustainability.

6. What projects are eligible for funding?

The Broadband Investment Fund is new funding, which will operate under a new set of criteria that are significantly enhanced from previous funding programmes, but are based on experience to date. The design and operation of the fund builds on the lessons learned from the Broadband Challenge Fund.

An important aspect of the eligibility criteria for urban projects is that government funding will be conditional on recipients providing, as a minimum, wholesale access to the underlying passive infrastructure – ducting and dark fibre – to any third party. The eligibility criteria will not preclude applications from entities wishing to also provide services to end-users, but have been designed to attract a wide range of potential investors and to prevent the emergence of vertically integrated monopolies.

This new open access requirement will not only promote competition at the deepest level of the network, but will improve the investment incentives for all network operators by providing a 'base component' from which they can install their own infrastructure. Many utility-type investors (including electricity companies and local councils) may also be interested in applying for funding under the Broadband Investment Fund to deploy duct-only networks (such applicants will still need to demonstrate a sustainable business case, which may require partnerships with a range of telecommunications operators).

With respect to rural funding, the draft criteria are aimed at addressing broadband infrastructure gaps in more remote areas, while recognising that effective solutions need to take into account local circumstances and needs. The draft criteria will also support extensions of existing networks – particularly in facilitating the deployment of broadband capable backhaul infrastructure, a key limitation to effective services in remote locations.

7. Who will receive the funding?

It is anticipated that any legal entity (including network operators, local authorities and community-based organisations) will be able to apply to access funding.

Strong partnerships and collaboration between central and local government, the private sector and communities will be critical to achieving New Zealand's broadband aspirations – so sector input is critical.

8. What is the definition of urban and rural?

Rural areas, for the purposes of the Rural Fund, are any communities that can demonstrate that they do not have fixed or wireless broadband infrastructure capable of providing speeds of greater than 1Mbps.

Urban communities are those in more densely populated regions, who may have existing broadband services but who are able to satisfy the conditions set out in the Urban Fund for investing, as a minimum, in new passive broadband infrastructure.

9. How does this impact existing broadband investment plans?

The funding criteria have been designed to complement existing broadband investment plans. The proposed eligibility criteria will build upon recent investment announcements such as Telecom's $1.4 billion investment in cabinetisation or Vector's recent announcement to lay fibre and compete in Auckland.

The criteria that have been released specify how the provision of public funding will leverage significant additional private sector investment from applicants and their partners. This is intended to help promote collaboration between the private sector and local and regional government. It is also critical that any supported projects do not crowd out private sector investment, do not unnecessarily duplicate similar infrastructure, and that the Fund achieves the maximum leverage from partner investment.

For example, the focus of the urban eligibility criteria is on providing high-speed connections to businesses and key public users (particularly schools and health organisations). Those network operators that have outlined investment plans will be eligible to receive government funding if the additional funding is necessary to connect those targeted users and if the operator commits to operating their network in a manner that meets the open access requirements that the government has set.

10. What do you mean when you say that the Broadband Investment Fund is technology neutral?

Allowing innovation and not designing solutions that benefit a particular operator are key reasons for not prescribing the types of technological solutions that may deliver fast broadband to New Zealanders.

While it is generally recognised that fibre will provide the highest bandwidth to high density urban areas, the Urban Fund criteria seek to maximise the degree to which the network is able to support a number of access technologies (whether fibre, wireless or DSL connections). The Rural Fund criteria have also been drafted to ensure that all technologies are eligible for funding.

11. How will this provide a stepping stone to high speed services at home for residential users?

By co-funding broadband connections to schools and health organisations in a region the government will be supporting the deployment of ducting and dark fibre throughout urban centres and into surrounding suburbs (where many schools and health organisations are located). A condition of funding is that applicants must make these passive assets available to all operators to install their own infrastructure, which will assist in lowering the costs for the subsequent deployment of fibre to residential users. In addition, applicants have to demonstrate the potential for the passive infrastructure to be extended to provide fibre to the home in the long term.

12. Is the size of the funding enough to make a material difference?

The allocated funding is sufficient to fund broadband networks right across urban centres in New Zealand, as well as to materially improve the current state of broadband infrastructure in rural New Zealand.

A critical aspect of this package is that the funding provided will leverage significant additional private sector and community funding. The Broadband Investment Fund will provide operating grants, which means the government is recognising the wider benefits of broadband and does not expect to make a financial return on the expenditure. Operating grants are also the most flexible of financing instruments so as to allow the government to invest in high quality local solutions, within a national framework, without having to take an ongoing ownership interest in different joint venture arrangements.

This Fund will operate in addition to the $1.4 billion investment commitment already made by Telecom NZ under its operational separation undertakings. It is also important to note that the government will not need to make any regulatory concessions (for example on access pricing) in order to improve the business case for operators to invest in uneconomic projects.

13. Is the government intending to have copper removed if it is to be overlaid by fibre?

The government expects that as fast broadband fibre is rolled out that the use of copper may be reduced or removed in some areas. However, the government is not mandating copper removal but rather the best fit between the best available technology and the needs of users in the regions concerned.

The government will fund projects that facilitate high-speed broadband connections and is neutral on the issue of whether such projects overbuild or replace existing copper assets.

14. Will those who were previously working towards a Broadband Challenge Fund application have a head start?

All applications will be assessed against new criteria but clearly those who have already done a lot of work will be in a good position to apply immediately.

15. What is proposed for New Zealand's international connections?

The priority for government is to see the deployment of a second trans-Tasman cable to improve the resilience of New Zealand's international communication links and to improve competition to exert downward pressure on the price of international bandwidth. The government considers there is merit in acting as an anchor tenant for the deployment of a second trans-Tasman cable by purchasing sufficient international bandwidth to meet the future needs of the research and education sectors. The government notes that private sector activity is occurring and it intends to monitor these developments. A process for implementation will be developed in parallel with the Broadband Investment Fund.

16. What is the government doing to leverage public spending on broadband?

In addition to providing seed funding to target specific infrastructure gaps, a complementary initiative is underway to better leverage public spending on broadband. There are opportunities for greater co-ordination in the purchasing decisions of public entities (particularly in the health and education sectors) to further stimulate investment and achieve better value from advanced broadband services.

The government has directed the State Services Commission to look for opportunities within the health and education sectors to better coordinate expenditure on connectivity. In addition, the government will consider the merits of aggregating demand through a joint procurement function. This work is being developed in parallel to the Broadband Investment Fund.

17. What happens next?

The government is seeking feedback on the draft funding criteria and the proposed application process for the Broadband Investment Fund by 30 June 2008. Once this feedback, from both written submissions and stakeholder meetings, has been received and analysed, the government will release the final criteria and Expressions of Interest will be called for the first funding round.

It is expected that the first allocation of funding for new projects under the Broadband Investment Fund should occur in the 2008/09 financial year.

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Other Digital Initiatives

18. What is the Digital Development Council and Forum?

The establishment of the Digital Development Forum and associated Council is progressing with urgency. Government will look for the Digital Development Forum to provide leadership and develop strategic priorities to achieve our digital potential. The Council will respond to the issues and priorities set by the Forum, by developing a detailed work programme. The government is providing $2.9 million over 5 years as seed funding for this important work. The government will be announcing the establishment of the Forum and Council within the next two weeks, and at that time will provide further detail on their functions and design.

19. How does the Rural Fund relate to the TSO Review?

The government is also undertaking a review of the Local Service Telecommunications Service Obligations (TSO).

A key component of the Local Service TSO is the provision of telephone services to those users who otherwise would not be offered a service at an affordable price. The supply of uneconomic TSO local service is currently subsidised partly by Telecom revenues for profitable telephone services and partly by a levy on the telecommunications industry.

The Local TSO review is:
* Considering the case for introducing contestability into the supply of Local TSO service and the way subsidy funding for the service is disbursed; and
* Assessing the need for additional requirements to ensure that TSO service providers deploy rural telecommunications infrastructure to standards consistent with international best practice (the vast majority of uneconomic customers are in the rural areas of New Zealand).

The criteria for the first round of the Rural Fund have been configured in such a way as not to pre-empt or impact unduly upon the finalisation of the TSO review.   On completion of the first funding round an evaluation will be undertaken to consider if criteria changes will be required to accommodate any changes arising from the TSO review. Therefore funding arrangements for rural broadband projects in future years may differ from the current criteria.

20. What is the status of the Digital Strategy's Community Partnership Fund?

Since 2005, as a part of the Digital Strategy, the Community Partnership Fund (CPF)

has provided $17.4 million to over 100 community-driven ICT projects across the country.

The CPF is an excellent example of communities, government and business working together to achieve practical results.

Budget 2008 allocates a further $6 million for a 2008/09 funding round of the CPF.

21. What sorts of projects will be funded under the CPF?

Priorities for funding are currently being developed.

The Community Partnership Fund supports projects that focus on:
- building ICT skills and capability in regions and communities;
- mapping communities' ICT assets and identifying priority gaps;
- strengthening community projects through the use of ICT;
- connecting communities of interest online;
- addressing issues of confidence, such as safety and security, in using ICT; and
- smart ways to digitise and link content and use technology applications in our communities around New Zealand.

It is proposed to develop a strategic approach to facilitating rollout of the highest impact projects.

Consultation on the Digital Strategy 2.0 concludes on 23 May 2008. This process is New Zealand's opportunity to take part in the national conversation about our digital future and how 'being digital' can contribute to improving productivity, enriching our communities and ensuring a sustainable future.

This vital input will help determine the types of projects that will be funded through the Community Partnership Fund.

22. When will CPF funding be available?

Timing of the funding round will be established following the conclusion of the Digital Strategy 2.0 consultation process.

23. What else is funded in the Budget 2008 package?

Component	Item	Estimated spend over next 5 years ($ m)
New Funding for Budget 2008	Accelerating Broadband Investment (operating)	325.000
	Accelerating Broadband Investment (capital)	15.000
New Budget for Other Digital Strategy Initiatives	Community Partnership Fund	6.000
	Support Digital Strategy 2.0	0.500
Existing Public	Health Connectivity Spending	60.000

Sector Connectivity Spend	Education Connectivity Spending	45.500
	REANNZ – KAREN (Advanced Research Network)	7.800
	Government Shared Network - The Government Shared Network (GSN) is a new network that enables government agencies to securely share information at higher speeds and more cost effectively. The shared network improves the delivery of information and services to the New Zealand public.	50.000
Digital Strategy Refresh New Initiatives	Digital Development Council and Forum – formal establishment to be announced in the next two weeks.	2.850
	Ongoing monitoring and implementation of the telecommunications regulatory framework including: Commerce Commission enforcement; Telecom operational separation undertakings; Telecommunications Service Obligations (TSO) review; and ongoing policy advice to the government on the sector.	22.650
	Nextspace graphics cluster – to create a 3D digital graphics cluster around Right Hemisphere's technology platform, to develop world class research and commercial projects.	4.000
	Delivering Digital NZ – enabling communities to connect with, access, use and create digital content reflecting their rich histories and stories.	4.200
	Aotearoa People's Network – providing free internet access via libraries, including hardware, onsite support and digital creation tools.	5.750
	Anti-Spam Regulation – enabling the Department of Internal Affairs to enforce the anti-spam regulation.	4.500
TOTAL		553.750