

Submission to
Ministry of Economic Development

In the matter of
Broadband Investment Fund (BIF)

From *Local Government New Zealand*

26 June 2008

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INTRODUCTION

1. *Local Government New Zealand* congratulates government for providing funding to accelerate the national deployment of high speed broadband and appreciates the opportunity to comment on the Broadband Investment Fund (BIF) criteria and related processes. This submission outlines a general local government view on the government's broadband fund.
2. *Local Government New Zealand* makes this submission on behalf of local government and representing the interests of 12 regional councils and 73 territorial authorities of New Zealand. Councils have significant interest and involvement in various aspects of broadband deployment, applications and community access to ICT services.
3. This submission has been prepared on the basis of providing comment on particular aspects of the BIF in which local government has a view; and recommendations to address areas of interest and concern for local government. The following core principals are promoted within this submission:
 - i. Equity of access
 - ii. Broadband is considered as core infrastructure
 - iii. A partnership approach and integrated solutions.

PROCESS TO PREPARE THIS LOCAL GOVERNMENT SUBMISSION

4. *Local Government New Zealand's* submission was prepared from knowledge gained and involvement with council interests in the following:
 - Our submission to the Digital Strategy 2.0
 - The work of the local government ICT Advisory Group
 - Findings from the local government Broadband Forum in February 2008
 - Development of a Rural Broadband Strategy framework
 - Development of the Digital Communities Action Plan
 - Membership on the Digital Strategy Steering Group
 - Development of Broadband Friendly and Know How Guide for councils
 - Participation in ICT and Geospatial strategy, and project groups of relevance to local government
5. *Local Government New Zealand* also sought comments from all councils by forwarding detailed information following the announcement of BIF and seeking

feedback on issues *LGNZ* raised at the time. There was limited additional comment from councils to what had already been identified as of interest to local government in relation to the funding criteria and process. Other associations of local government functions such as ALGIM are likely to have particular views also. *Local Government New Zealand* knows that some councils will provide independent submissions, thus encourages the Ministry to carefully consider all council related submissions.

6. The final submission was endorsed under delegated authority by:
 - Mark Farnsworth, as the local government National Council member overseeing the broadband and regional development portfolios and chairperson for the Local Government New Zealand ICT Advisory Group.

KEY ISSUES FOR LOCAL GOVERNMENT

7. All councils have been notified of the Broadband Investment Fund (BIF) through various communication channels, and invited to provide feedback on the criteria by 30 June. The areas of particular interest and concern to local government outlined in this submission were identified and shared with councils. Their feedback has been supportive of *Local Government New Zealand's* position.
8. *Local Government New Zealand* generally supports the intent, approach and the criteria in the draft Broadband Investment Fund documentation. In particular we support the principle of promoting open access networks, the different treatment of rural and urban broadband deployment, the inclusion of passive infrastructure and a technology neutral stance.
9. There are some process areas that *Local Government New Zealand* believes could be improved and/or require additions for clarification. Particular issues and points are raised, and subsequent solutions recommended.

Definition of Open Access

Issue:

10. There is confusion both within councils and the telecommunications industry, over what the term “open access” applies to in the context of the BIF. More certainty will be required for applicants in the design of their broadband infrastructure and technology solutions.

Recommendation:

11. A definition and principles of “Open Access” will be provided in the *Broadband Know How Guide* that has been developed as a council resource with the support of the Ministry of Economic Development (MED). This material is currently in draft form and will be publicly available by the end of July.

12. The following principles from this *Know How Guide* relating to access to duct space, access to fibre optic cores within a cable, access to point to point bandwidth and access to network interconnection points could be adopted as guidance for the BIF criteria:
- i. The network will have a disaggregated structure whereby the delivery of the core networking infrastructure will be commercially independent of, and be able to support numerous value added services from, various suppliers in a fair and non-discriminatory way.
 - ii. The broadband network will include an interconnection point that supports the interconnection to other networks and service providers on an equal basis.
 - iii. The connectivity components may be purchased from various suppliers and meet at a common aggregation point where the appointed network operator will provide the interconnection, networking and operational capability. These connectivity components may include public networks or high capacity wireless connections.
 - iv. Core services such as internet access, domain name services, directory services, IP address management, mail servers, firewall management etc, will be provided to those on the network through separate commercial and technical agreements with suppliers.

Urban - Rural Funding Split

Issue:

13. Whilst the more flexible approach to rural applications is supported, the funding split of \$250 million for urban and \$75 million rural is being questioned by some councils. The debate for rural communities primarily centres on priority being given to those areas where the private sector is unlikely to provide high-speed broadband infrastructure and services without public funding, legislative requirements and/or community interventions. Thus a higher proportion of the BIF should be allocated for rural applications.
14. Conversely urban areas will contend that greater economic and social benefits for New Zealand will be obtained by extending fibre to the home (FTTH) in the absence of the private sector currently proposing any extensive FTTH deployment. Also open access urban networks will promote price competition, greater uptake, a wider range of services, new content and improved productivity at a scale not achievable in a rural environment.
15. Regardless of the above factors, *Local Government New Zealand's* position is based on the principle of equity i.e. all citizens should have access to the same services.

Recommendation:

16. The \$250:75 million split should be considered as an arbitrary starting point and be reviewed annually. Reallocation of urban and rural funding could be based on the level of demand, the increasing percentage reach of broadband services, the degree to which current market failure is being addressed and the level of investment from contributing parties.

Regional Facilitation

Issue:

17. Because the BIF is contestable funding, there is a risk that multiple parties will be applying to BIF to provide broadband deployment to the same locality. Whilst competitive solutions and technology options should be encouraged, the resource waste in competing applications should be avoided. There are already various interest groups proposing workshops on applying to BIF in isolation from the local partner organisations that may be required for an integrated and an effective broadband solution.

Recommendation:

18. In the application criteria there should be a requirement to demonstrate that the applicant has the necessary local/regional support from those parties who can best help facilitate efficient broadband deployment and uptake :- in particular telecommunications service providers, local/regional authorities, regional economic development groups, major industry users and community ICT interests. Such an approach will help ensure that there is maximum leverage for the BIF and the widest possible community support through investment, demand aggregation, service provision and reach to users.

Joint Urban- Rural Applications

Issue:

19. The likelihood of BIF applications encompassing a mix of urban and rural deployment is high, particularly where a regional approach is adopted. *Local Government New Zealand* supports efforts for such an approach, particularly in more sparsely populated areas of the country that are typified by a small number of urban centres and a large hinterland. The draft BIF criteria would be difficult to rationally apply to an urban-rural mix application.

Recommendation:

20. A higher weighting could be given to BIF applications that demonstrate geographic aggregation in addition to broadband connection aggregation. This would require greater flexibility in determining the rural-urban split from a funding perspective, and also reinforces point 2 above and the arbitrary nature of allocating funding on an urban-rural basis.
21. A regionally based solution is also likely to encourage multiple broadband technology solutions and providers that would collectively address current connectivity and backhaul constraints. Thus the introduction of a mixed urban-rural or “integrated solutions” category should be considered within the criteria.

Early Applications

Issue:

22. There will be some regions and localities that are well advanced in their broadband deployment planning, with agreements and governance arrangements in place. The draft criteria and process do not allow for business case ready applicants to immediately apply for BIF funding. Given that the funding is proposed to be available over 5 years, *Local Government New*

Zealand supports the concept of speedily advancing deployment where practical while continuing to support other areas to develop deployment plans based on accessing BIF in future funding rounds. Many other councils will have process delays due to normal planning cycles, particularly where there are significant financial implications.

Recommendation:

23. Where applicants have identified themselves as meeting the BIF criteria and have the necessary business case well developed, they could advance straight to an application process without an EOI or awaiting the current prescribed application dates. This would also help stagger deployment for the telecommunications providers and maximise use of industry resources throughout the country.

Application Development Support

Issue:

24. Some areas, particularly rural, are unlikely to have the technical knowledge or resources required to develop a broadband deployment proposal. Without such support it may be difficult to engage some regions in taking an active role in promoting local access to high speed broadband. There is a risk that some localities would unilaterally support a particular provider who was prepared to invest and provide the application resource. Accepting the first option presented will need to be balanced with ensuring that other options have been investigated and thus the best possible outcome being achieved.

Recommendation:

25. Where the applicant is not a telecommunications company with the necessary technical expertise and industry knowledge, financial support and/or independent technical consultancy should be provided to help ensure robust business case and technical solutions are presented for BIF funding. For councils (or their agents such as an economic development agency) who have facilitated the development of a BIF application, technical assistance should be available at the front end of the process rather than relying on technical assessment once applications are received.
26. Specifically, EOI applicants would need to demonstrate that they have access to the necessary expertise and resources before advancing to a BIF application. If not, there are two obvious options:
 - i. Provide a separate fund for technical support to applications
 - ii. For MED to provide an independent support team available to regions.

Funding Contributions

Issue:

27. Councils can influence and support broadband deployment in numerous way. These include providing access to existing ducting and infrastructure, access to road opening in conjunction with other works programmes, expediting consent processes, facilitating demand aggregation, project management and direct investment. Local government seeks assurances that both in-kind

contributions and direct investment are recognised as financial contributions when assessing the degree of funding leverage.

28. Councils' involvement in BIF can potentially be through various council controlled mechanisms such as EDAs, commercial business units or by the council itself. Also any cash contribution can be raised by different mechanisms including loans, separate rates, rental arrangements (user pays) and cash reserves. Making a distinction on community contributions to a project based on the source of council funding and the nature of council contributions appears contrary to the intent of maximizing leverage.

Recommendation:

29. In the financial assessment of BIF applications all council contributions, whether in-kind or financial, should be costed and considered as a component of the locality's investment. Sources of council funding should be irrelevant for the purpose of BIF applications.

Approval Process

Issue:

30. It is unclear exactly who will be involved in making recommendations to the Minister for funding approval. Whilst the process is acknowledged as MED's responsibility, experience with other infrastructure funding programmes of government have demonstrated to *Local Government New Zealand* that there is less contention over decisions when key stakeholders are involved in the process.
31. For example the Tourism Demand Subsidy and Sanitary Wastewater Subsidy Schemes had funding criteria developed jointly by government agencies, technical expertise, tourism interests, and local government as the primary recipient of these funding schemes. Both schemes were heavily over subscribed yet funding decisions were accepted based on the transparent assessment process.
32. Because of the scale of funds available and the likely level of demand, a robust application assessment process that reduces the chances of political interference and maximises the possibilities of success is warranted for BIF.

Recommendation:

33. That a three stage process be adopted at the application assessment stage, namely:
 - i. Initial screening by MED officials to ensure that basic BIF criteria are met and the solutions appear technically feasible. Conforming applications would go to the next stage or referred back for further work.
 - ii. Conforming applications would be reviewed by a team with representation from government, local government (representing the wider community interest), ICT industry body and telecommunications technical expertise. Such a team is better placed to assess the applicants' ability to deliver any project and the benefits that would be accrued from public intervention.

- iii. Recommendations from the assessment team would be presented to the Minister for final approval.

The Auckland Factor

Issue:

34. There is uncertainty whether in the BIF criteria there will be any priority accorded to the Auckland region. Since the national deployment of high speed broadband is aligned to the Economic Transformation Agenda and subsequent regional development programmes ring fence the treatment of the Auckland region, concern has been raised that priority will be given to Auckland at the expense of other regions. To avoid any misunderstanding, government would need to be consistent with its approach when applying programmes to Auckland (and therefore provide targeted funding) or reinforce that BIF is contestable both from a geographic and an organisational perspective.

CONCLUSION

35. *Local Government New Zealand* is very supportive of the intent to accelerate high speed broadband deployment through public investment and promoting an open access telecommunications network environment. To help ensure that the Broadband Investment Fund has a transparent process, achieves maximum community benefit, encourages integrated solutions and supports regions with least capability, some recommendations to improve the application process and national broadband outcomes have been submitted.
36. For any further comment or information please contact Colin Drew on phone 04 924 1205 or e-mail colin.drew@lgnz.co.nz