

Submission on the Broadband Investment Fund Criteria

WELLINGTON CITY COUNCIL

June 2008

About Wellington City Council's Broadband Project

Wellington City Council welcomes the opportunity to comment on the proposed Broadband Investment Fund criteria. On 12 June 2008 our Council agreed to submit an application to the Broadband Investment Fund, in conjunction with other councils in the region. Since this submission is concerned with technical issues, it is officer-only.

The Wellington Regional Strategy has identified broadband as a key enabler of economic growth and our Councillors unanimously adopted a vision that by 2012, all of Wellington City will have affordable access to a fast, open broadband network.

Since then we have been developing a business case to achieve our broadband vision. The work has included:

- Undertaking a Request for Concept process to engage potential industry partners in developing implementation options for the vision;
- Undertaking continuous dialogue with these partners and relevant business, government and community sector stakeholders;
- Consulting the community;
- Considering policy changes that could be made;
- Researching the economic, social and environmental benefits of broadband for Wellington;
- Surveying MUSH entities (Municipalities, Universities, Schools and Hospitals) to estimate unmet demand, willingness and ability to pay, and future demand;
- Developing a financial model to determine viability; and
- Assessing different business models.

The results of the model can be summarized by three **critical success factors** needed to achieve our vision while being sustainable:

- **Leveraging ownership and management of Council assets** – Opening access to Council assets and facilities particularly where this can reduce the capital cost (such as in the use of trolley wires for overhead deployment). The Council is also in unique position as a neutral third party and facilitator of additional telecommunications infrastructure investment.
- **Central government support** – Providing central government funding, recognising the huge potential public good in (particularly) health and education, and actively aggregating demand, to drive demand issues
- **A substantial private sector partner or partners** – who can bring elements such as existing fibre infrastructure, relevant assets, customer base and expertise.

Broadband Investment Fund Criteria

Additional government funding to support open access broadband investment will enable an accelerated investment programme and will leverage the greater private sector investment needed to develop new broadband based services and increase existing capacity. The Council is very heartened to see that its broadband development to date appears to be consistent with the Broadband Investment Fund criteria. Wellington City Council's broadband vision is aligned with the eligibility criteria, the assessment criteria and the weightings of each.

We would like to comment on three particular issues: timeframes, private investment participation and revenue streams required to attain sustainability and expand in the future

Timeframe

The timeframe proposed from the expressions of interest opening day (31 July 2008) to the day applicants must submit full applications (March 2009) gives organizations sufficient time to put together a business case.

However, as previously outlined, Wellington City Council has already undertaken significant work and we are confident that we can put together a full business case before the end of 2008.

Local and central government share the sense of urgency needed to rectify high speed fibre infrastructure. Our view is that long lead times before new projects are put in place comes at a cost.

We would like some guidance from MED on whether the timeframes can be flexible enough to allow organizations early access to this funding, or at least have a contractual commitment for funding release at an later date.

We recommend a fast track application process for organizations that are advanced in the business planning, financial sustainability modelling and stakeholder engagement stages – with the prospect that this could result in early release of, or commitment to, funding.

Private investment participation

The relevance of these criteria depend on the business model selected. We believe that designing a successful model that allows private and public entities to work together requires two key factors:

- 1. Giving the providers the ability and incentives to make good operating and investment decisions** – private providers seeking for-profit incentives will miss fewer opportunities to expand access to

unconnected costumers, but they will also need to get returns over their investment and cover themselves from the risk accordingly.

- 2. Lowering barriers to entry to allow affordability and new forms of competition** – while keeping a high degree of control over the network to ensure open access and affordability, guaranteeing maximum public good benefits.

These two conditions might be difficult things to get right in the design and implementation stages. In our discussions with potential partners they have been abundantly clear about the linkage between risking their capital and the degree of control they expect. In a joint venture arrangement this could give rise to tensions between the parties over the objectives for a new entity.

There are many worldwide examples where investment and responsibilities are shared, but they tend to be complex arrangements especially where there are uncertainties over costs and future revenue streams.

We would therefore recommend including the following in the assessment criteria:

- 1. Risk analysis** – identifying risks of each model and how to work through them. This includes determining which party is best placed to bear each risk.
- 2. Business model that allocates responsibilities and risk accordingly** – the business model needs to allocate both operation and investment related responsibilities and risk to the party best able to undertake it.
- 3. Sound stakeholder engagement programme** – a good stakeholder involvement programme will lead to a business model that better meets all parties' needs, is more likely to be implemented successfully and be sustainable over time.

Revenue streams and sustainability over time

Point 9 of Section B: Assessment criteria includes a number of matters to ensure that the network entity is sustainable over time and particularly beyond any period of government funding. It also requires that the entity has the capacity to expand in the future leveraging a potential fibre to the premise solution.

As we mentioned before the network needs to guarantee affordability and open access principles and it also needs to be sustainable as above. These can be contradicting principles if the business models don't have sustainable revenue streams that actually flow from higher to lower layers of the broadband network.

Balancing short term and long term goals can also be challenging – in the short term we want to allow further layers to develop and use the network to the maximum extent possible to create as much public good as possible. This would be possible offering the lowest costs to entry possible; in the long term, however, the entity needs to obtain enough revenues to grow over time to extend the network to a potential fibre to the home services in the future.

Potential ways of achieving both might be:

- Securing long term anchor tenancy agreements with larger commercial customers
- A centralized procurement strategy from central and local governments to aggregate demand and connect all MUSH entities in the region.

We believe that securing strong revenue streams, particularly at the outset, could achieve similar aims to securing a commitment for capital investment from private sector partners. Although the financial and risk implications are likely to be different, the overall impact on the viability of a business case could be just as valuable.

We recommend considering providing more explicit criteria over the way that **revenue streams** can be used to build a sustainable business model and the possible arrangements with private providers to successfully involve leverage a FTTH solution in the future keeping public good and affordability outcomes intact.