

Hon Bill English  
Minister of Finance  
Parliament Buildings  
WELLINGTON

Dear Bill

## **VALUE FOR MONEY AND BUDGET 2009: COMMUNICATIONS AND INFORMATION TECHNOLOGY PORTFOLIO**

You have requested information on improving value for money within the Communications and Information Technology portfolio.

As you will be aware, I have also provided the Prime Minister with details of the top priorities for my communications and information technology portfolio. In line with our pre-election commitments, **the overriding goal in this portfolio is to ensure a national ultra-fast broadband network is built.**

This overriding goal will be supported by:

- Input into the two Resource Management Act reviews (to make rollout easier);
- conducting a targeted review of the Telecommunications Regulatory Framework while maintaining a stable regulatory environment to provide certainty for investors;
- working with the Ministers of Finance and State Services to co-ordinate ICT-related investment across government, particularly in the health and education sectors, to ensure demand for and productive use of the network by the public sector; and
- Increasing digital literacy.

In undertaking this exercise, I have asked my officials to ensure that identified savings and expenditure are consistent with and necessary to deliver the priorities above.

### **OVERVIEW OF THE COMMUNICATIONS VOTE**

Total appropriations for Vote Communications within the 2009/10 baseline are \$89.4m. This includes:

- \$18.1m (20.3% of the total Vote) for Departmental Output expenses:
  - \$9.8m for the management and enforcement of the Radiocommunications Act 1989 which is partly recovered from licence fees.

- \$5.0m for the provision of policy advice for communications and information technology; and
  - \$3.3m for the administration of broadband investment mechanisms.
- \$8.6m for Non-Departmental Output expenses:
    - \$7.8m for the enforcement of telecommunications sector regulation by the Commerce Commission; and
    - \$0.8m for the administration of a pool of text-phone equipment rented to users of the Relay Service.
  - \$0.9m is for Other Expenses to be incurred by the Crown, which consists of contributions that we make to international telecommunications organisations and telecommunications research.
  - \$61.7m for multi-year appropriations for accelerating broadband (Broadband Investment Fund – “BIF”).

It is important to also note that a significant proportion of the Vote is third party funded:

- \$6.6m for the management and enforcement of the Radio Communications Act 1989.
- \$7.8m from levies on industry relating to the enforcement of telecommunications sector regulation by the Commerce Commission.

#### **SAVINGS AND REPRIORITISATION**

I have asked my officials to review each area of expenditure within Vote Communications in relation to my priorities and identify savings and opportunities for reprioritisation.

#### **Savings**

Savings of \$0.9m in 2008/09, \$1.4m in 2009/10 and \$0.4m in out years can be made by ceasing funding for the Digital Development Council and Forum, and Connected New Zealand. Cabinet has already agreed to stop funding for the Digital Development Council and Forum. This savings will reduce the policy advice output class accordingly.

In addition, one-off savings of \$0.55m can be made in 2008/09:

- \$0.3m in the policy advice area due to the digital broadcasting review being deferred; and
- \$0.25m in the administration of the text-phone pool for the Relay Service and related services.

#### **Scope for further savings**

In addition to identifying these immediate opportunities to make savings, the Ministry of Economic Development is also undertaking a detailed review of all expenditure

undertaken by the Ministry directly and the findings of this review will be reported to the ownership Minister. This will result in additional savings across all of the Votes administered by the Ministry including Vote: Communications and Information Technology.

### **Third party funding**

As indicated above, a significant proportion of the Vote is third-party funded.

Fees charged to radio licence holders are being reviewed to ensure fees reflect actual costs and remove any residual cross-subsidisation between licence-holders.

### **Reprioritisation**

I propose to reprioritise from 2008/09 the multi-year Broadband Investment funding of \$340m within Vote Communications to form part of the \$1.548b, required to meet pre-election commitments of:

- \$1.5b to ensure the ultra-fast broadband network is built; and
- \$48m to improve broadband infrastructure in rural areas.

*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Subject to this funding being available, additional advice for the following items can be met from within baseline expenditure for policy advice in Vote Communications:

- Input into the two Resource Management Act reviews to make rollout easier;
- conducting a targeted review of the Telecommunications Regulatory Framework while maintaining a stable regulatory environment to provide certainty for investors;
- coordinating ICT-related investment across government, particularly in the health and education sectors, to ensure demand for and productive use of the network by the public sector; and
- increasing digital literacy.

### **Radio spectrum auctions**

Your letter also identified a specific fiscal risk concerning radio spectrum projects, in the context of considering the reversal of the previous government's unfunded commitments.

This risk concerns the uncertainty about the size and timing of future revenue streams from radio spectrum sales and auctions. In particular, it is difficult to accurately forecast the value of spectrum that will be sold at auction, existing spectrum right holders may not accept or fail to settle offers from the Crown for the renewal of their rights, and the settlement of renewal offers may occur earlier than anticipated. (e.g. Vodafone's early

settlement of its renewal offer for 800/900 MHz spectrum). Note that all spectrum sales revenue has a positive impact on the Crown's operating balance as it is unbudgeted revenue.

The ongoing programme of spectrum sales activity is consistent with the stated Government priorities, and provides industry with the spectrum assets required to support investment in new wireless infrastructure. On this basis, no further action is recommended in relation to this item, except to note the uncertainty that exists around the size and timing of future revenue streams from spectrum sales.

Yours sincerely

Steven Joyce  
**Minister for Communications and Information Technology**