

Vote Communications

Baseline Alignment Proposal

Version [1]

8 March 2010

Submitted by Hon Steven Joyce:

Minister for Communications and Information Technology

Section 1: Alignment to Government Priorities

My priorities over 2010/11 and the next two financial years, *[information deleted – free and frank]*.

1. Further progressing and implementing the Ultra Fast Broadband (UFB) Initiative. The implementation phase for this initiative will continue until 2019. The initiative will have a significant impact on productivity by creating new business opportunities for firms and increasing the efficiency of organisational and production processes and marketing. Widespread UFB will also increase competition by giving consumers increased choice. It will also allow improvements in the delivery of government services (notably education and health services). Pursuit of this priority will consequently contribute to both investment in infrastructure and better public services which are two of our six main economic policy drivers. The main risk will be gaining the full support and participation of the telecommunications industry in the UFB and the incentives (price and services) for up-take.
2. Implementing a similar Rural Broadband Initiative (RBI) to improve broadband in rural and remote areas. Over the next year, this will involve setting up a new industry levy to subsidise rural telecommunications and finalising contracts with providers. This will impact on both economic growth (through increased productivity) and social development (through improved social connections for rural communities and increased retention of young New Zealanders in rural areas during and after their schooling). Pursuit of this priority will contribute to the same policy drivers as for the UFB initiative. The main risk will be the high costs (to users or to government through subsidies) of providing such services and meeting the expectations of rural users.
3. Complementing these priorities by encouraging demand for UFB/RBI in the education and health sectors and the private sector. The immediate focus, in partnership with the Minister of Education, is to seek agreement to procure a full National Education Network (NEN) enabling schools to do more with broadband at a lower cost. In addition, we will also be ensuring that schools have the internal network upgrades, hardware, content and services and professional development to make full use of broadband and a NEN. The focus in the health sector, in partnership with the Minister of Health, is promoting the use of faster broadband as an important enabler of new health care delivery models, especially in the Primary Care area. This work is dependant on the rollout of UFB and RBI and on the leadership from both the Ministry of Education and Ministry of Health.
4. Working as a member of the Ministerial Committee on Government ICT to deliver better value for money from government services, with a focus on better decision making tools for Ministers, better procurement models and the wider use of UFB across government.
5. Working on the switchover from analogue to digital television and the associated reallocation of the released UHF spectrum. This will enable economic benefits *[deleted – commercial activities]* to be realised from a combination of the Crown revenue from auctioning the spectrum that is freed up for 4G mobile services, new television services and a greater choice of programmes for television viewers, and the deployment of new 4G mobile broadband services. This priority will therefore contribute to our investment in infrastructure policy driver. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]* A lesser

risk is a delay in the development of an international consensus on the preferred technical plans for the 4G mobile spectrum in our region.

6. Ensuring we have a digital-literate workforce ready to use a faster and improved broadband network. The focus has currently been looking at how proven community-based programmes such as the Computers in Homes programme can be better supported. This initiative is dependant on support from the Department of Internal Affairs.

There are a significant number of underpinning activities that support these priorities, such as having; a conducive regulatory environment, investment incentives; a competitive communications market; an efficient use of spectrum; and cyber security.

I will achieve these priorities by:

- using the newly formed Crown Fibre Holding Company to manage the urban fibre investment
- investing in urban ultra fast broadband and the rural broadband initiative
- ensuring there is an appropriate regulatory environment to facilitate the rollout of broadband
- ensuring incentives are in place for the education and health sectors to use the urban fibre and rural broadband

There are currently significant pressures on the Vote Communications baselines, which are likely to increase [primarily due to time-limited funding ceasing and an increasing work-programme in a number of areas]. There is also little in my current programme of work that could be deferred or deleted that would free up resources should additional pressures impact on this Vote, as the majority of my work-programme is either directly focused on the priorities at hand or relates to underpinning activities that support these priorities. There are some fiscal risks if any priority projects, or projects that underpin those priorities grow in scope or complexity [e.g. if changes to the Telecommunications Service Obligations generate additional Departmental administrative work], or if new work is added [e.g. additional support is required around Free Trade Agreements]. I have also been asked to contribute funding to the establishment of a Productivity Commission.

As a result of the above, the Departmental output expense “Policy Advice – Communications” in particular is under extreme pressure, which might necessitate a transfer of funding (of up to a maximum of \$2 million for 2010/11) from the second tranche of capital investment relating to UFB.

In the mean time however, I will work closely with my officials on ensuring that we remain focused on the task at hand - shifting both the urban and rural broadband programmes into the implementation phase this year.

Section 2: Reprioritisation

As noted above, I have no proposals to end or reduce any current activities funded by Vote Communications. I might need to seek to transfer some funding from the second tranche of

capital investment relating to UFB to accommodate fiscal pressures within the Vote; such a transfer will be sought later if required. It should also be noted that any savings arising from the Commerce Commission's work relating to the enforcement of the telecommunications sector regulation, will not be able to assist with any reprioritisation, as this work is funded from levies on the telecommunications industry.

Overall, I am confident that the overriding goal of *ensuring a national UFB network is built* over the remainder of this term of government will be met. My top priorities for 2010 are as follows:

- further progressing and implementing the UFB initiative
- progressing and implementing the Rural Broadband initiative
- encouraging demand for faster broadband, including government use of UFB, particularly in the education and health sectors;
- further progress with digital literacy; and
- progress on spectrum arrangements for digital television switchover and the future auction of spectrum for new mobile services

Section 3: Summary of Financial Movements

Please refer to the attached table which identifies my baselines moving forward. Please note at this stage there are no financial changes highlighted.

Baseline Alignment Proposal – Financial Summary Report

Vote Communications

	2009/10	2010/11	2011/12	2012/13	2013/14
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Baseline (2009/10) FBU	74,461	23,419	23,164	23,224	23,224
Share Allocation	0	0	0	0	0
Centralised Saving	0	0	0	0	0
Reprioritisation					
Total Reprioritisation	0	0	0	0	0
Transfer Outside Vote					
Total Transfer Outside Vote	0	0	0	0	0
Total Changes	0	0	0	0	0
Total Proposed Baseline	74,461¹	23,419	23,164	23,224	23,224

Major baseline changes are as follows;

1. A decrease of \$51 million between 2009/10 and 2010/11 mostly relates to the \$48 million appropriation Broadband Investment (Rural Supply) dropping off in 2010/11. Note that this \$48 million is unlikely to be spent before 30 June 2010 and the funding is therefore likely to be transferred to 2010/11 in accordance with the authority delegated to the Minister of Finance and Minister for Communication and Information Technology in the Budget 2009 process. Also note that capital expenditure appropriations relating to broadband and trans-Tasman cable investment are not included in the above table.