

# The Treasury

## Budget 2011 Information Release

### Release Document

June 2011

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [5] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [7] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [8] 9(2)(h) - to maintain legal professional privilege
- [9] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
- [10] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [8] appearing where information has been withheld in a release document refers to section 9(2)(h).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

**Vote:** Communications

**Co-Votes:** Nil

**Title:** Crown Fibre Holdings - UFB

**Brief Description:** Final tranche of funding to be appropriated from the \$1.5 billion manifesto commitment for broadband investment; to go to the Crown-owned company Crown Fibre Holdings (**CFH**) for the purpose of CFH carrying out the Government's tender for the Ultra-fast Broadband (**UFB**) initiative.

**Initiative Type:** Capital

**Priority Area:** Decision Budget 2011

**PA Objective:** Improve Functionality

**Capital Funding Sought (\$ thousands):**

<i>\$000*</i>		2010/11	2011/12	2012/13	2013/14	2014/15 and outyears
<b>Gross capital impact**</b>	A		242,000	300,000	200,000	200,000
<b>Offsetting capital saving**</b>	B					
<b>Net capital impact</b>	C		242,000	300,000	200,000	200,000

**Operating Impact**

<i>\$000*</i>		2010/11	2011/12	2012/13	2013/14	2014/15 and outyears
<b>Gross operating impact**</b>	D					
<b>Offsetting savings/revenue**</b>	E					
<b>Net operating impact***</b>	F					

The figures in the table above should reconcile as follows:

$$A - B = C$$

$$D - E = F$$

\* note that although normal financial recommendations express funding in millions, this template expresses funding in thousands. This is because CFISnet deals with thousands to enable Treasury to generate the Appropriation Bills for Parliament.

\*\* delete these rows if not required

\*\*\* The operating impact table should net to zero as there is no allowance for operating expenditure associated with capital in Budget 2011. The Four-year Budget Plan should show how operating expenditure associated with capital will be managed within baselines.

**Recommended Decision in Budget 2011**

[Same as CFISnet initiative template plus any additional information if necessary]

### **Risk if Budget 2011 Decision is not made**

The UFB initiative would not be able to be achieved. CFH has insufficient funds to enter into contracts to build ultra-fast broadband to 75% of the population. The appropriation is a critical step in providing CFH with funding to enter into further contracts for the roll-out of the UFB.

### **Gateway Number**

N/A

### **Whole of Life Cost**

This initiative represents part of the government's manifesto commitment of \$1.5 billion relating to broadband investment.

### **Detailed Costings**

An Invitation to Participate (**ITP**) in the UFB initiative was released in October 2009 by the Ministry of Economic Development. This was the main tender document setting out the requirements for selection of partners to both invest in, and deploy, ultra-fast broadband networks.

Crown Fibre Holdings (**CFH**) was established in December 2009 as a Public Finance Act Schedule 4 company wholly owned by the Crown. CFH's purpose is to operate the UFB partner selection process and to manage the Crown's investment in UFB networks.

Proposals on the ITP were received in January 2010. The ITP terms were refined subsequently by CFH and then revised bids were sought in July 2010.

In December 2010, CFH entered into agreements with the first two selected partners for the UFB initiative – Ultra Fast Fibre Limited, owned by WEL Networks Limited (a Hamilton-based electricity lines company) and Northpower Limited (a Whangarei-based electricity lines company). These deals had a combined value of over \$200 million.

In December CFH also entered into negotiations with Telecom Corporation of New Zealand Limited, Enable Networks and Flute Networks for the second tranche of UFB contracts.

Based on the above, it is likely that funding previously appropriated will begin to be spent in the current financial year pursuant to the new contracts with Ultra-fast Broadband Limited and Northpower. Based on the value of these contracts, it is highly

likely that a significant part of the previously appropriated funding will be spent, and so there is a need for further funding until such time as the precise funding needs are clarified (following CFH selecting further partners).

It is not possible at this point in time to predict the exact date that the funding being sought from Budget 2011 will need to be spent by CFH. This is because the expenditure depends on when further partners are selected by CFH, the value of the respective arrangements, and the terms of these arrangements.

Based on the policy requirements for the UFB initiative, it is clear that CFH will make a further recommendation on UFB partner(s) within the next few months, and that this will result in expenditure. However, as noted above, it is unclear exactly how much will be required or when exactly the funding will be required. It is therefore proposed to seek to have the remaining manifesto commitment fully appropriated within the Budget 2011 process and an estimate of the annual profile for that appropriation has been made.