

**COVER SHEET**

<p><b>4.3 Digital Connectivity Investment Plan</b></p>	<p><b>Noting</b></p>
<p><b>Background &amp; context:</b></p>	<p><b>Recommendation(s):</b></p>
<p>Ministers have identified three areas as priorities for investment in 2018, to support subsequent sector investments in the later years of the Provincial Growth Fund. These are water storage, digital connectivity, and training and development.</p> <p>Digital connectivity is a key infrastructure for lifting business productivity generally, and the success of ICT ventures in particular. A regional digital connectivity investment plan has been developed by the Provincial Development Unit (PDU) taking account of government priorities and policies for digital enablement.</p> <p>The surge regions are a focus of the investment plan because they have some of the highest numbers of unserved broadband users. Selection of particular locations targeted for infrastructure investment would recognise the expected value of their contribution to growing regional businesses and employment.</p> <p>The investment plan is based around three core investment areas:</p> <ul style="list-style-type: none"> <li>• <b>infrastructure for user coverage (broadband and mobile),</b></li> <li>• <b>infrastructure to improve the performance of broadband services; and</b></li> <li>• <b>connectivity for digital hubs.</b></li> </ul> <p>Infrastructure investment for user coverage would be pursued through the Rural Broadband Initiative phase two and Mobile Black Spots Fund (RB12/MBSF) expansion programme managed by Crown Infrastructure Partners, with bids already received and under consideration.</p> <p>For infrastructure investment to improve the broadband performance experienced by end users already covered, a dedicated pool of contestable funding is proposed. This would be allocated on a case by case basis, focusing on where broadband services are having an acute impact on regional business. There would also be a dedicated pool of contestable funding for investing in digital hub connectivity. This would be allocated on a case by case basis.</p>	<p>We recommend that the IAP:</p> <ol style="list-style-type: none"> <li>a) <b>Discuss</b> the attached proposed investment plan for PGF funded regional digital connectivity.</li> <li>b) <b>Note</b> that the proposed investment plan will form the basis of a paper to Cabinet seeking approval for a \$100 million regional digital connectivity package to be PGF funded.</li> <li>c) <b>Advise</b> the PDU of any aspects of the investment plan that could be better aligned with the objectives of the PGF.</li> </ol>

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## **4.3 OVERVIEW OF PROPOSED PGF INVESTMENT PLAN FOR REGIONAL DIGITAL CONNECTIVITY**

### **INTRODUCTION**

Ministers have identified three areas as priorities for investment in 2018, to support subsequent sector investments in the later years of the Provincial Growth Fund (PGF). These include digital connectivity, water storage as well as training and development.

This paper provides a summary overview of the key elements of a proposed PGF investment plan for digital connectivity in the regions.

### **PURPOSE OF INVESTMENT PLAN**

The digital connectivity investment plan has been developed to provide a cohesive approach to investment in digital connectivity as one of the priority areas to be advanced through the PGF. The aim of this investment plan is to provide a consistent basis on which to assess PGF applications and guide the allocation of PGF funding for digital connectivity infrastructure in the regions, and to align with priorities for regional economic development through the PGF.

The investment plan applies the PGF principles to digital connectivity recognising the priorities of Ministers, including the importance of digital infrastructure to progressing initiatives in the various industry sectors of the regional economies.

### **PGF OBJECTIVES AND REGIONAL DIGITAL CONNECTIVITY**

The goal of this investment plan is to contribute to the PGF objectives of increasing the productive potential of regions through enhancing the availability and quality of digital connectivity services. In particular, there is a need to reduce the number of rural communities where the lack of broadband services, or the low quality of existing broadband services, is inhibiting business productivity. Another key focus is to increase the mobile coverage at tourist destinations so that businesses reliant on visitors are able to grow their businesses.

Digital connectivity is a component of the wider digital enablement objectives of the PGF that aim to improve digital capability for business expansion and new ventures (including a focus on sectors that are important in the regions (farms, tourism and construction)).

### **DIGITAL CONNECTIVITY STRATEGY**

The digital connectivity goals for the regions would be achieved through pursuing the following three courses of action:

#### **Expanding user coverage**

Network infrastructure for delivering broadband and mobile services would be deployed in the regions to expand user coverage beyond what can be achieved with funding currently allocated for

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expanding the Rural Broadband Initiative phase two (RBI2) and Mobile Black Spots Fund (MBSF) programmes.

**Improving service performance**

Network infrastructure would be deployed to add capacity for improving the broadband service experienced by end users in the regions where underperforming broadband is suppressing business growth.

**Supporting digital hubs**

Broadband connectivity would be established for digital hubs in the regions at places such as marae where people can collaborate and benefit from sharing digital connectivity.

**DIGITAL CONNECTIVITY PROGRAMMES**

The digital connectivity strategy for the regions would be implemented with the following three programmes - infrastructure for user coverage (RBI2/MBSF expansion), infrastructure of better service performance, and connectivity for digital hubs.

All of these programmes are scalable to a degree depending on the extent to which it is technically practical to vary the size of infrastructure solutions for meeting the requirements of a programme.

**Programme for expanding user coverage (RBI2/MBSF expansion)**

The existing RBI and MBSF programmes have increased the availability of broadband services in the regions significantly, and when these programmes are completed with existing allocated funding, there will be broadband coverage for most rural dwellings. However, to progress closing digital divides and ensure that suitable connectivity infrastructure is available in remote New Zealand, there is the opportunity to go further with expanding broadband coverage under the current live RBI2/MBSF procurement process. There is also the opportunity through this process to establish mobile coverage at tourist destinations that are fundamental to business growth and employment in the regions

The procurement process currently underway to expand the RBI2 and MBSF programmes is commercially managed by Crown Infrastructure Partners (CIP). \$105 million of funding has already been allocated to expand both programmes from a mix of industry levy and Crown revenue. An additional Commercial Information has been sought by CIP for the expansion through a PGF application.

It is proposed that the PGF funding sought for the RBI2/MBSF expansion would be dedicated to expanding user coverage for broadband and mobile services. There would be a focus on surge regions, with the PGF fully funding the capital cost for the infrastructure deployed. The operational costs for the infrastructure would need to be funded by the respective network operator from the revenue generated through charges to retail service providers using the network capacity.

The PGF funding would be allocated to network operators awarded contracts to deploy and operate the infrastructure. The funding to establish the necessary network infrastructure would be administered by CIP under a PGF funding agreement.

At this stage the Provincial Development Unit (PDU) is proposing to allocate \$40 million for the RBI2/MBSF expansion programme in the regional digital connectivity investment plan. Not all the Commercial Information sought in the PGF application is considered to be of high value in relation to the PGF

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objectives, and hence the lower amount of <sup>Commercial Information</sup> stated in the investment plan for this infrastructure programme. For example, the proposed mobile coverage for state highways has a focus on public safety outcomes rather than economic development, although there would be some collateral productivity benefits in the margins for locals, tourists and other visitors using these state highways. Further information has been requested so the value of the particular proposed infrastructure can be determined in relation to PGF objectives.

### Programme for improving service performance

It is proposed that a contestable pool of PGF funding would be dedicated to improving the quality of broadband services for rural communities where the current service experienced by users in these communities is impeding business productivity. Areas would be targeted for improving the speed and reliability of broadband internet access where this is critical to the success of planned new business ventures (eg forestry) and industry developments which receive PGF funding.

The PGF would potentially co-fund up to half of the capital cost for specific infrastructure deployed to improve broadband services in the regions. The operational costs for the infrastructure would need to be funded by the respective network operator from the revenue generated through charges to retail service providers using the network capacity. The PGF funding pool to establish network infrastructure would be administered by MBIE through the PDU. Expressions of interest would be invited from network operators proposing infrastructure solutions fitting stated criteria.

### Programme for digital hub connectivity

Support for digital hubs would be through dedicating a contestable pool of PGF funding which would be used to subsidise digital connectivity for centres of collaboration in the regions. Marae in surge regions would be an initial focus, with civic business hubs in small towns also eligible to receive funding.

A project would be setup to actively connect marae where this adds value to regional prosperity and the respective iwi is willing to support the connectivity on an ongoing basis. A key principle is that the hubs would need to be financially self-sustaining after an initial establishment period of 2-3 years. Users would therefore need to be able to fund their connectivity going forward without PGF funding assistance.

The funding for digital hub connectivity would be provided by the PDU. Expressions of interest would be invited from companies and other organisations seeking assistance with establishing connectivity for a digital hub. Proposals for improving connectivity of a similar nature would also be considered for other priorities identified in the regions.

**FOR DISCUSSION ONLY - NOT GOVERNMENT POLICY****PROPOSED PGF FUNDING FOR REGIONAL DIGITAL CONNECTIVITY**

Specific amounts of PGF funding are identified in the investment plan for the three programmes identified so that there can be confidence that there will be sufficient resources available to achieve the relevant PGF outcomes sought by Ministers.

A total budget of \$100 million sourced from PGF funding has been identified for regional digital connectivity as a whole, to be divided between the three programmes. The tentative PGF funding allocation to each programme is as follows:

PGF Funding for Regional Digital Connectivity		
Programme	Deliverables	PGF Funding Allocation (indicative only)
<b>Programme One:</b>  <b>Network infrastructure for user coverage</b>	<b>RBI2/MBSF Expansion:</b>  <b>Broadband-</b> Network capability for fixed broadband connection (wire or wireless) of end user premises (including marae) in the regions. (1)  <b>Mobile -</b> Network capability for greater cellular mobile coverage targeting tourist destinations in the regions. (1)	<b>\$40 million</b>  Commercial Information _____ _____
<b>Programme Two</b>  <b>Network infrastructure for improved service performance</b>	Deployment of network infrastructure (eg backhaul) for improving the performance of digital connectivity services in the regions.(2)	Commercial Information _____
<b>Programme Three:</b>  <b>Connectivity for digital hubs</b>	Establishing broadband connectivity for digital hubs (including marae) in the regions.(2)	Commercial Information _____
<b>All programmes</b>		<b>\$100 million</b>

**Notes:**

- (1) Awaiting data to determine optimal combination of infrastructure for contributing to PGF objectives.
- (2) The relative split of funding between programmes 2 and 3 may be adjusted (within a total cap of Commercial Information for the programmes combined) depending on the uptake of digital hub connectivity and other factors. Priority would be given to the digital hubs connectivity initiative.