

# **Opening Statement to Joint Committee on Communications, Climate Action and Environment on 14 May 2019**

## **Minister Richard Bruton**

I welcome the opportunity to attend the Joint Committee on Communications, Climate Action and Environment to discuss the National Broadband Plan and answer any questions that members may have on the National Broadband Plan and the important decision taken by Government last week.

The National Broadband Plan is a key Government commitment and a core component of Project Ireland 2040. The State investment in the NBP will have a transformative effect on Ireland and will future proof communities for generations to come. It will be the biggest investment made in rural Ireland since electrification. This is technology that will unblock balanced regional development and transform opportunities for those living in rural Ireland.

We are in the midst of rapid transformation in technology and digitalisation, which is driving growth in the demand for quality, reliable, high speed broadband. Digital technology is revolutionising how we live, learn and work and the delivering the National Broadband Plan ensures that rural Ireland is not left behind.

National Broadband Ireland will supply broadband to the one quarter of Irish people and premises which currently cannot access high-speed broadband through commercial services. It guarantees a level playing field for those 1.1 million people, 540,000 premises including 100,000 businesses and farms, and over 600 schools, where commercial operators will not commit to deliver high speed broadband.

The benefits of high speed broadband will be seen across key sectors in Ireland including education, agriculture and food, education and enterprise.

The availability of high speed broadband enables access to

- Flexible and remote working
- Smart health with online GP and nursing services and medical monitoring
- Cloud based services and connected devices
- Smart farming opportunities
- Digital learning

- Reliable electronic payments and bookings

In 1999 the sale of Telecom Eireann took the state out of the telecommunications industry. In taking that decision, the then government gave responsibility for sustaining and modernising the arteries of the digital economy to the private sector.

Government spending in this area remained low for many years. Between 2002-2016 €400m was invested in Broadband by the state. By comparison, other areas of infrastructure received significantly more capital, including €36.9B in roads and €10.8B in Water in the period 2002-2021.

Our towns and cities have and will benefit from private sector investment in telecoms. Based on the commercial plans of a number of companies, virtually every home, school and business in our towns and cities will be provided with high speed fibre to the home internet.

The private sector has not been able to deliver for rural Ireland. In order to ensure that those who live in rural Ireland have the same opportunities as those who live in urban areas, and to prevent the exclusion of citizens in rural areas from the digital revolution, the National Broadband Plan was developed.

The recent tender involves state aid to place 146,000km of fibre onto poles and ducts, most of which are in private ownership.

### **State Investment and contractual protections**

The overall estimated total project cost is approximately €5 Billion over 25 years, not including VAT. This is the cost of building, operating and maintaining the network over 25 years.

NBI will be liable for costs to operate maintain and reinvest for an additional 10 years without any State subsidy (i.e. for a 35 year period in total).

The state contribution to the total cost of this €5 billion is a maximum of €2.6billion, exclusive of VAT, as the VAT is paid back to the State. This investment is capped. It includes a contingency of €480m which will be strictly monitored.

Subsidy is only payable once the cost to NBI has been incurred and verified as appropriate to the milestone agreed, be it to design the network, pass premises or connect premises. It is not paid in lump sums annually; rather it is paid in a controlled manner month on month,

quarter on quarter once work is completed to the high standard set out in the contract and verified accordingly.

Less subsidy will be paid where material and subcontractor costs turn out to be less than forecast by NBI in its tender.

The state investment is spread over 25 years with €1.8 billion required in the first 10 years (excluding contingency and VAT). No subsidy is required between years 26 to 35 during which NBI remains obliged to continue to operate the network. For example the rentals to eir for its poles and ducts is on average approximately €40m per annum and is applicable for 35 years including last 10 when there is no State subsidy. ComReg fully regulates the lease charges from eir.

We have absolutely no evidence from the procurement process that eir or SIRO, if they had remained in the process, which they did not, would have carried out this project any cheaper or more quickly than what is now on the table from the final bidder.

### **Investment by National Broadband Ireland**

National Broadband Ireland (NBI) is responsible for providing the remaining €2.4 billion of cost.

Part of this contribution will be from equity investment and working capital. NBI will provide a minimum initial equity investment and working capital of approximately €220 million including equity funding to cover working capital requirements. This excludes the costs already incurred in their bid.

To be clear - where estimates of cost and revenue do not materialize in line with targets, then significant further private equity may be required up to year 10 at no further cost to the State to make up any shortfalls. NBI is ultimately responsible for €2.4billion of the costs, whether this comes from commercial revenues, equity or working capital.

As stated, the Bidder's equity will be invested ahead of the Government subsidies thereby placing this investment at risk first. The subsidy provided by the State is for capital related costs required to pass and connect all rural homes, are paid retrospectively and only on achievement of milestones set out in the contract.

For example by the end of the first contract year, it is anticipated that subsidy of approximately €102m ex contingency and ex VAT will be paid this includes connecting nearly 300 Broadband Connection points across every county. By the end of contract year 2,

a further approximately €202m ex contingency and ex VAT will be paid. At this point it is expected that approximately 133,000 premises will have been passed. The Bidder will however have funded the upfront cost of that construction which will be verified before any of the subsidy is paid by the State.

As commercial revenues ramp up following the rollout of the network it is expected that the ongoing operations, maintenance of the network and any required upgrades will be funded from future commercial revenues. NBI has made assumptions around these numbers at bid stage and takes the risk that these assumptions are reasonably accurate to ensure it remains within the overall capped subsidy available.

Large parts of the network in question will be in very rural parts of the country on overhead poles, not in sheltered urban areas where cables are underground. The Bidder must ensure the network is operational for 35 years with no subsidy from the State for the last 10 years.. Given recent winter weather events this is a significant undertaking and comes with risk to the bidder. Crews will have to be deployed every winter the length and breadth of the country to fix overhead lines due to wind and storm damage at a cost that will simply vary by how harsh a winter is in any given year.

NBI will have a low turnover relative to other telecom operators in the market as it is only addressing the most difficult to reach premises areas across the State which are not commercial for other companies to invest in. It is a wholesale company which is obliged to maintain open access for all retailers and charge a price which is regulated by the contract.

The wholesale prices NBI can charge are fully regulated by the NBP Contract and will be comparable to those charged in urban areas including those regulated by ComReg.

Based on the its assumed take up level of 80% over the 25 years with wholesale prices of around €25-€30 per month per premise, annual turnover is projected to reach circa €150m at its peak. However, by year 2 for example the turnover may have reached only €10m.

NBI will have significant recurring annual costs to cover from subscriber revenues, rental of third party infrastructure, maintenance of the network, staff costs, overheads and capital renewals required over at least 35 years.

## **Ownership**

There has been considerable questioning as to why Government chose a model that involves subsidisation and not ownership.

The subvention being provided by the State is necessary to give access to those living in rural Ireland, to a service that is already provided to those living in urban Ireland.

The evaluation has shown that the best and most cost-effective way of dealing with this is to use the extensive existing infrastructure available, including the MANs network, the existing Eircom and ESB infrastructure as a platform from which to roll out the 146,000 km of fibre needed. Re-using existing infrastructure minimises cost and impacts on the environment and is in line with relevant State Aid Guidelines.

In looking at the ownership model it is therefore important to look at what is being owned versus rented. Following the sale of Telecom Eireann in 1999, the State no longer owns the significant telecommunications infrastructure built across the country.

Fibre has a finite lifespan and will require reinvestment. If it was not owned and managed by NBI, the State would at the end of the Contract own fibre on rented poles that is in need of substantial reinvestment.

The ownership decision was taken in July 2016 and it is not possible to change the ownership model without a new procurement process.

### **Alternative Options**

Alternative options for delivering high speed broadband have been considered both during the development of the Intervention Strategy and during the procurement. That analysis has consistently identified the current approach as optimal. The context in which alternative options have been explored and the documents published last week were produced, is important. In 2018 as part of contingency planning in the event that the current process failed to deliver an appropriate outcome, more than 10 alternative options were considered. It was clear however that all of the alternative options identified would take longer to reach 100% of the Intervention Area premises compared to the current plan (or in some cases 100% would never be achieved), may be more costly, in most cases would require a consultation on a new strategy as well as a new procurement process and State aid application, and may not provide the level of future proofing required under the Commission's strategy, Connectivity for a European Gigabit Society.

Consideration was given to mandating an existing State body, such as the ESB. The clear advice from the Attorney General was that this would be counter to both procurement law and state aid law for this to be done outside of a new procurement process. This view has been supported in separate senior level discussions in late 2018 on the NBP between the Department of Communications and the European Commission.

Of the alternative options considered, mandating a new or existing agency to build a high speed broadband network was identified as most likely to result in achieving the Government's objectives. However this was only if current process could not deliver and the Contingency Planning Report states that it was recognised that proceeding with the current procurement process and the award of the Contract would represent the solution most likely to result in the delivery of high speed broadband. The report also makes it clear that while the Agency would be responsible for delivery, it would then need to procure for the build, maintenance and operation etc. of the network.

In 2019, building on the findings and initial analysis carried out in 2018, a number of options were developed further. These options provide solutions which to different degrees enhance the availability of high speed broadband in rural areas however they would not deliver high speed broadband to every home and business. In addition at a minimum would give rise to 32 month delay in start of deployment to any premises.

### **Protections to the State**

A comprehensive set of protections and legally binding obligations are outlined in the NBP contract. The suite of documents published last week include a synopsis of the key provisions of the Contract. These controls will play a key role in ensuring that costs are minimised and deliverables are met. These include:

- A suite of key performance indicators to ensure the service is maintained appropriately
- Significant penalties to address under performance should it occur
- Substantial oversight arrangements to monitor progress, costs and take up etc.
- Substantial claw-back provisions on cost savings achieved or to share in future excess profits
- Significant checkpoint reviews at various stages in the project
- oversight of the purchase of materials and subcontractor contracts year on year
- Standalone Board responsible for the ringfenced operations and day to day management of National Broadband Ireland with Board required to report to Minister monthly/quarterly and annually.
- Ministerial appointee to the Board
- Independent audit of accounts

- Strong Departmental team engaging on a weekly/monthly basis with National Broadband Ireland
- Subsidy only released once proof of contract delivery provided by independent certification process

To manage the Contract including monitoring costs, an experienced governance team will be established within the Department

I look forward to assisting the Committee members with any questions they may have today.