

2010-11 Budget Issues Briefing

NATIONAL BROADBAND NETWORK (NBN)**Why**

- The NBN Implementation Study Lead Adviser found that the NBN will have a strong business case and can be constructed for less than expected.

Current Situation

- The NBN Implementation Study Lead Adviser, McKinsey/KPMG, found that:
 - the NBN can be constructed for less than the \$43 billion envelope set by the Government in April 2009;
 - NBN Co will have a strong business case; and
 - NBN Co can generate returns that allow the Government to cover its borrowing costs.
- The Government is considering its response to the Implementation Study. It is a comprehensive report that raises many significant issues which require careful examination.

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Key sensitivities (Q&A format)

Why doesn't the Implementation Study report provide a cost benefit analysis?

- The Lead Adviser undertook a detailed financial analysis, including revenue and cost modelling.
- The analysis indicates that, under a range of realistic scenarios, NBN Co will be a viable business and that the Government can expect to generate a rate of return consistent with the long term bond rate, allowing the Government to fully cover its cost of capital.
- The Lead Advisers were not asked to prepare a formal cost-benefit analysis.

How can we be sure that the NBN can be built for less than \$43 billion?

- The Implementation Study concluded that the NBN can be built for \$42.8 billion. This should be seen as a conservative estimate, because the Study:

- assumes no re-use of existing infrastructure;
 - assumes conservative (higher) estimates of input costs and other parameters;
 - does not factor in productivity improvements gained by NBN Co and its contractors over the course of the rollout;
 - identifies a number of further opportunities that could reduce NBN Co's total capital cost.
- The Lead Adviser undertook detailed modelling to arrive at its cost estimate.

You said in April 2009 that there would be strong private sector interest in NBN Co – why has this changed?

- The Implementation Study recommends that private equity should not be introduced prior to privatisation. This will give the Government scope to get the policy and regulatory settings right before introducing private sector investment.
- NBN Co will be run on a commercial basis at arms' length from Government.
 - The Lead Adviser concludes that NBN Co will have a strong business case.
 - Once the network is rolled out, the company will be able to generate significant cash flow and will have the capacity to support private sector debt.
 - The Lead Adviser concludes that NBN Co would be in a position to start returning capital and paying dividends from 2017-18.

Why should the Government invest vast amounts of taxpayers' money in the NBN?

- The NBN is critical infrastructure that is needed to future proof the Australian economy, driving future growth and productivity.
- For the first time, the NBN will provide high speed broadband to all Australians, no matter where they live.
- The NBN will transform the structure of Australia's telecommunications market. NBN Co will provide open network access to all retailers on equivalent terms. This will provide a level playing field, and promote competition on price, quality of service and customer choice.
- The Lead Adviser concludes that NBN Co will have a strong business case and will generate returns sufficient to cover the Government's borrowing costs.

Will NBN Co still be privatised 5 years after the rollout is complete?

- The Lead Adviser recommends that the Government maintain flexibility in the timing of privatisation. It recommends that the timing of privatisation should primarily depend on favourability of market conditions and readiness of the company for private ownership.
- The Lead Adviser also recommends that an independent review be conducted into the telecommunications market structure and competition safeguards prior to

privatisation. This review will be important to determine whether the appropriate conditions are in place for privatisation.

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Contact

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