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## Identified National Broadband Network (NBN) funding sources and allocations

Brian Dalzell  
Economics Section

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## Introduction

While media commentary regarding the Government's National Broadband Network (NBN) initiative has remained focused on potential gross benefits, expected costs and funding allocations have been a contentious political issue. For example, a considerable amount of time was spent during the 25 May 2010 Senate Environment, Communications and the Arts Legislation Committee Budget Estimates, attempting to match expected costs and announced funding with the funding allocations identified in available budget material.<sup>1</sup>

The importance of costs within the economic context is that they are directly linked to any consideration of net benefit. In the political context, the expected Government funding costs of the NBN must eventually be incorporated into the budget process.

To date, the total expected funding costs of the NBN, while uncertain, do not match the identified funding allocation in the budget measures. This is partly because the full funding allocation for the NBN has been and will continue to be an ongoing process.

Within this setting, the aim of this background note is to inform the reader as to the identified Government funding allocation for the NBN relative to estimated or expected costs of the project, based on all publicly available information at the time of writing. We first identify the potential sources of Government funding.

## NBN funding

### Potential Government funding sources

The potential sources from which the Government can obtain funding to then allocate to the NBN include:

- general government revenue (for example, taxation revenue)
- borrowings (for example, through the issuance or sale of Government securities/debt), and
- existing assets (for example, existing Government funds).

### NBN funding allocations to date

Combined, the potential funding sources available to the government represent a resource pool from which it can then allocate funding to the NBN. The funding allocation to the NBN is derived from summation of all identified allocations. These identified allocations are attributed to the following:

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1. Senate Environment, Communications and the Arts Legislation Committee, Estimates, (Budget Estimates), Commonwealth of Australia, 25 May 2010, pp. 11–19, viewed 2 August 2010, <http://www.aph.gov.au/hansard/senate/commtee/S13006.pdf>

- the Building Australia Fund (BAF)
- the contingency reserve account
- existing and/or additional issuance of Commonwealth Government securities (CGSs) as part of the Government’s general debt pool, and
- the proposed future issuance of NBN specific Aussie Infrastructure Bonds (AIBs).

#### Building Australia Fund

Amounts shown in the BAF Communication’s Portfolio Special Account (PSA) relate to eligible NBN matters. Figure 1 below presents these figures from the 2010–11 Budget measures which, through the five year period to 2013–14, indicate an allocation to the NBN (via equity injections from the BAF only) of \$2.942 billion.

Figure 1: Building Australia Fund—communications budget, 2008–09 through 2013–14

Building Australia Fund	2008–09 Actual	2009–10 Stated actual	2010–11 Budget estimate	2011–12 Forward estimate	2012–13 Forward estimate	2013–14 Forward estimate	Total
Expense (\$ millions)							
PSA	10	302	2 062	136	432	-	<b>2 942</b>

Source: Australian Government, *Portfolio budget statements 2010–11: budget related paper no. 1.9: Finance and Deregulation Portfolio*, Commonwealth of Australia, Canberra, 2010, p. 53, viewed 2 August 2010, <http://www.finance.gov.au/publications/portfolio-budget-statements/10-11/docs/2010-11-PBS-PORTFOLIO-FINAL.pdf> Note: PSA is the Portfolio Special Account. Transfers to the BAF Communications PSA (as shown above) relate to eligible NBN matters.

Figure 1 includes an actual equity injection of \$10 million during the 2008–09 financial year as detailed in the 2008–09 NBN Company (NBN Co) annual report.<sup>2</sup> In addition, the 2009–10 ‘stated actual’ value of \$302 million is derived from the testimony of the NBN Chief Executive Officer (CEO) Mr Mike Quigley during Senate Estimates on 25 May 2010.<sup>3</sup> This is detailed below in the ‘Realised NBN Co financing to date’ section.

2. National Broadband Network Company (NBN Co) Limited, *Annual Report 2008–09*, NBN Co website, viewed 2 August 2010, [http://www.nbnco.com.au/content/upload/files/NBN\\_Co\\_Annual\\_Report\\_08-09.pdf](http://www.nbnco.com.au/content/upload/files/NBN_Co_Annual_Report_08-09.pdf)
3. Senate Environment, Communications and the Arts Legislation Committee, Estimates, (Budget Estimates), Commonwealth of Australia, 25 May 2010, p. 11, viewed 2 August 2010, <http://www.aph.gov.au/hansard/senate/commtee/S13006.pdf>

## Contingency reserve

In relation to the Budget, the contingency reserve is a temporary allowance included in aggregate expenses, principally to reflect anticipated events that cannot be assigned to individual programs in the preparation of the Australian Government's budget estimates. The reserve is used to ensure that the budget estimates are based on the best information available at the time of the budget and is not a general policy reserve.<sup>4</sup>

The contingency reserve includes provisions for future equity investments in the NBN. Although the 2010–11 budget papers stated that this is subject to the Government's final response to the implementation study (and was therefore not disclosed in the Budget papers), the July 2010 Pre-election Economic and Fiscal Outlook (PEFO), released prior to the Government's response to the implementation study, states that:

The Contingency Reserve includes an allowance for the tendency for estimates of expenses for existing Government policy to be revised upwards in the forward years (the conservative bias allowance). This allowance is unchanged from the 2010-11 Budget. The Contingency Reserve also contains provisions for future increases in ... the National Broadband Network (\$13.6 billion over three years to 2013-14).<sup>5</sup>

As at July 2010, the contingency reserve therefore contains a funding allocation to the NBN totalling \$13.6 billion over three years to 2013–14. This funding allocation has been temporarily allocated to the contingency reserve until such time as it would be transferred to or utilised for the NBN.

## Aussie Infrastructure Bonds

On 7 April 2009, the Government announced that its investment in NBN Co would be partly funded through the issuance of AIBs to both households and institutional investors.<sup>6</sup>

The 2010–11 Budget measures indicate that \$300 million of this investment may be financed by AIBs:

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4. Australian Government, 'Statement 6: expenses and net capital investment', *Budget strategy and outlook: budget paper no. 1: 2010–11*, Commonwealth of Australia, Canberra, 2010, p. 6–54, viewed 2 August 2010, [http://www.budget.gov.au/2010-11/content/bp1/download/bp1\\_bst6.pdf](http://www.budget.gov.au/2010-11/content/bp1/download/bp1_bst6.pdf)
  5. The Treasury, *Pre-Election Economic and Fiscal Outlook 2010, A report by the Secretary to the Treasury and the Secretary to the Department of Finance and Deregulation*, July 2010, pp. 7–8, viewed 2 August 2010, [http://www.treasury.gov.au/documents/1858/PDF/PEFO\\_2010.pdf](http://www.treasury.gov.au/documents/1858/PDF/PEFO_2010.pdf)
  6. K Rudd (Prime Minister), L Tanner (Minister for Finance) and S Conroy (Minister for Broadband, Communications and the Digital Economy), *New National Broadband Network*, media release, 7 April 2009, viewed 2 August 2010, [http://www.minister.dbcde.gov.au/media/media\\_releases/2009/022](http://www.minister.dbcde.gov.au/media/media_releases/2009/022)

On 7 April 2009, the Government announced that its investment in NBN Co would be partly funded through the issuance of Aussie Infrastructure Bonds to both household and institutional investors. In 2010–11, \$300 million of this investment will be financed by Aussie Infrastructure Bonds.

The component of this funding to be provided by institutional and other wholesale investors will be through the issue of Commonwealth Government Securities (CGS) as part of the Government's overall debt issuance program. These bonds will not be separately identified from other CGSs at the time of issue, but will be reported in the annual budget statements.

Institutional investors are likely to have first access to these CGSs on issuance and government consideration is currently being given to offerings of AIBs for household investors.<sup>7</sup>

The Government originally announced that its investment in NBN Co would be partly funded through the issuance of AIBs to both households and institutional investors. However, institutional investors are likely to constitute the majority of any such lending. Further, the above statement indicates that institutional investors are likely to have first access to any NBN related debt via the normal debt issuance program (CGSs as opposed to the separate issuance of AIBs).

This outcome is not surprising given that the interest rate (that is, the cost of borrowing), is certain to be lower for CGSs relative to NBN specific AIBs, simply because of the increased risk-profile of the latter investment.

A consequence of this action is that debt raised from the sale of CGSs as part of the Government's overall debt issuance program is reported as a single line item and not by its intended use. Therefore, the institutional funding amounts raised for the NBN in this manner would not be reported as a separate line item in the Budget Papers.

## Summary

In summary, the total identified NBN funding allocation as at 30 June 2010, for the period 2008–09 through 2013–14, is \$16.842 billion, comprising actual and estimated future funding allocations from the BAF (\$2.942 billion), contingency reserve allocations (\$13.6 billion), and the Government's planned debt issuance via CGSs (approximately \$300 million thus far). Any additional funding to be raised through issuance of AIBs to households remains to be seen as currently only 'government consideration' is being given to offerings of AIBs to household investors.

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7. Australian Government, 'Statement 7: asset liability and management', *Budget strategy and outlook: budget paper no. 1: 2010–11*, Commonwealth of Australia, Canberra, 2010, p. 7–12, viewed 2 August 2010, [http://www.budget.gov.au/2010-11/content/bp1/download/bp1\\_bst7.pdf](http://www.budget.gov.au/2010-11/content/bp1/download/bp1_bst7.pdf)

## NBN Implementation Study—recommended funding amounts

The NBN implementation study presents a recommended funding approach that comprises 100 per cent government funding in the first five years of construction (due to the reduced cost of borrowing under this approach).<sup>8</sup> The total recommended government funding amount for those five years is \$22.4 billion (see Figure 2 below).

The difference between the allocated \$16.842 billion in NBN funding (as identified above) and the amount of government funding recommended in the NBN implementation study, for the first five years to 2013–14 (\$22.4 billion), is \$5.558 billion.

In addition, the difference between the allocated \$16.842 billion in NBN funding so far and the initially proposed \$43 billion total build cost for the NBN is \$26.158 billion. That is, if the realised build cost for the entire NBN were \$43 billion, the Government must allocate/determine an additional \$26.158 billion of funding from available sources.

Figure 2: NBN Implementation Study – recommended funding amounts, years 1 through 5

Year	1	2	3	4	5	Total
Funding amount (\$ millions)	2 700	4 500	6 400	4 700	4 100	<b>22 400</b>

Source: Department of Broadband, Communications and the Digital Economy (DBCDE), *National Broadband Network Implementation Study*, Australian Government, Canberra, 5 March 2010, p. 367, viewed 12 May 2010, [http://www.dbcde.gov.au/broadband/national\\_broadband\\_network/national\\_broadband\\_network\\_implementation\\_study](http://www.dbcde.gov.au/broadband/national_broadband_network/national_broadband_network_implementation_study)

## Recent Government estimates of NBN funding amounts

In the absence of an official Government response to the NBN implementation study and with respect to the Government's expectations of required NBN funding amounts to 2013–14, the July 2010 PEFO states that:

The Australian Government has established NBN Co to build and operate the National Broadband Network (NBN).

The Government made provision in the 2010-11 Budget of \$18.3 billion over the forward estimates (including \$18.1 billion in equity) for the roll-out of the NBN, based on the recommendations of the NBN Implementation Study. The NBN Co and Telstra announced on 20 June 2010 that they had entered into a Financial Heads of Agreement and that they would enter into negotiations on the Definitive Agreements.

8. Department of Broadband, Communications and the Digital Economy (DBCDE), *National Broadband Network Implementation Study*, Commonwealth of Australia, Canberra, 5 March 2010, p. 367, viewed 2 August 2010, [http://www.dbcde.gov.au/broadband/national\\_broadband\\_network/national\\_broadband\\_network\\_implementation\\_study](http://www.dbcde.gov.au/broadband/national_broadband_network/national_broadband_network_implementation_study)

The exact timing and quantum of Government funding for the NBN, including payments by the Government and NBN Co in relation to the agreement with Telstra on the rollout of the NBN, will be determined in the Government's response to the Implementation Study and costs could arise as part of settlement of the Definitive Agreements between NBN Co and Telstra.

The Government has also committed to providing to Telstra, in conjunction with the Definitive Agreements, a guarantee for the financial obligations of NBN Co until NBN Co is fully capitalised.<sup>9</sup>

This statement indicates that the Government expects to make equity injections into the NBN of at least \$18.1 billion by 2013–14. This figure remains lower than the total amount of government funding recommended in the NBN implementation study (for the first five years), by \$4.3 billion, but higher than the funding allocation identified in this background note by \$1.258 billion.

In other words, in order to meet its expected NBN funding costs to 2013–14 of \$18.1 billion, the Government must allocate an additional \$1.258 billion of funding from available sources.

### **Realised NBN Co financing to date**

As at 30 July 2010, all known Government funding of NBN Co has been via equity injections from BAF assets allocated for that purpose (see Figure 1 above). The most up-to-date details with respect to amounts and timing of this funding were recently provided by the NBN Co CEO Mr Mike Quigley during Senate Environment, Communications and the Arts Legislation Committee Budget Estimates on 25 May 2010. These are summarised below.

#### **Total Government equity injections in NBN Co to date**

As at 25 May 2010, Mr Quigley indicated that since its inception, the NBN Co had received a total of \$260 million in Government equity injections, via five separate payments. In addition, another Government equity injection of \$52 million was expected within the next week, taking the total equity injections to \$312 million at 30 June 2010.<sup>10</sup>

#### **Further Government equity injections in NBN Co**

During the committee's hearings, Mr Quigley stated that at that time there were no further Government equity injections promised beyond this \$312 million. In addition, no decisions

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9. The Treasury, *Pre-Election Economic and Fiscal Outlook 2010, A report by the Secretary to the Treasury and the Secretary to the Department of Finance and Deregulation*, July 2010, pp. 31–32, viewed 2 August 2010, [http://www.treasury.gov.au/documents/1858/PDF/PEFO\\_2010.pdf](http://www.treasury.gov.au/documents/1858/PDF/PEFO_2010.pdf)

10. Senate Environment, Communications and the Arts Legislation Committee, Estimates, (Budget Estimates), Commonwealth of Australia, 25 May 2010, p. 11, viewed 2 August 2010, <http://www.aph.gov.au/hansard/senate/committee/S13006.pdf>



had been made by the Government regarding the further use or allocation of the component of the BAF Communications PSA relating to eligible NBN matters. Senator Conroy's explanation for this was that Government equity injections/cash transfers are supplied to NBN Co on a 'needs basis'.<sup>11</sup>

Equity injections in NBN Co and the Government balance sheet

Any equity injections (or cash transfers) in NBN Co represent an addition to the Government's financial asset account. Specifically, an increase in equity investments in other public sector entities in the 'Australian Government general government sector balance sheet' portion of the budget financial statements.<sup>12</sup>

Irrespective as to whether such equity injections are sourced from existing cash assets (for example, allocations in the BAF) or debt issuance (for example, the sale of CGSs), the effect on the Government balance sheet is the same. Net worth and net financial worth are unaffected and net debt is increased in both instances.<sup>13</sup>

Net debt increases as a result of equity injections in the NBN while net worth and net financial worth do not because the calculation of net debt excludes equity investments. This means that the offsetting increase in the 'investments in other public sector entities' line item resulting from an equity injection in the NBN is not captured by the net debt calculation.

To sum, an increase in debt (liabilities) or a decrease in cash (financial assets) and a subsequent equity injection in NBN Co acts to increase net debt on the Government balance sheet while net worth and net financial worth remain unchanged.

## Unutilised NBN funding allocation

The difference between the actual and estimated future NBN funding allocation identified in this background note (\$16.842 billion) and actual NBN funding to date (\$312 million) is

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11. Senate Environment, Communications and the Arts Legislation Committee, Estimates, (Budget Estimates), Commonwealth of Australia, 25 May 2010, p. 12, viewed 2 August 2010, <http://www.aph.gov.au/hansard/senate/commtee/S13006.pdf>
  12. See page 9–4 of 2010–11 budget paper number one for a recent example of the Australian Government general government sector balance sheet:  
Australian Government, 'Statement 9: Budget financial statements', *Budget strategy and outlook: budget paper no. 1: 2010–11*, Commonwealth of Australia, Canberra, 2010, p. 9–4, viewed 13 August 2010, [http://www.budget.gov.au/2010-11/content/bp1/download/bp1\\_bst9.pdf](http://www.budget.gov.au/2010-11/content/bp1/download/bp1_bst9.pdf)
  13. Net worth is defined as total assets minus total liabilities. Net financial worth equals total financial assets minus total liabilities, that is, it excludes non-financial assets. Net debt equals total interest bearing liabilities minus select financial assets. Specifically, net debt is the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash deposits, advances paid and investments, loans and placements.



\$16.53 billion. That is, out of a total identified NBN funding allocation of \$16.842 billion, the Government has utilised (or transferred) \$312 million in funding towards NBN Co and the remaining unutilised NBN funding allocation at 30 July 2010 is \$16.53 billion.

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