MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
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INFRASTRUCTURE AND RESOURCE MARKETS

CLASSIFICATION TEXT

Regulatory Impact Statement

Telecommunications Development Levy Extension

New Zealand Government

Regulatory Impact Statement

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Agency Disclosure Statement

1. This Regulatory Impact Statement has been prepared by the Ministry of Business, Innovation and Employment.

2. It provides an analysis of options to further address the rural/urban digital divide by means of Crown investment in rural broadband and mobile infrastructure. The Telecommunications Development Levy, established under the Telecommunications Act 2001, imposes a levy on certain telecommunications suppliers to contribute to the cost of infrastructure development. The options examined are therefore to assess the most effective size of the levy and other matters relating to its scope and operation.

3. The proposed expansion of the Rural Broadband Initiative and the establishment of the Mobile Black Spot Fund were publicly announced as National Party pledges at the time of the 2014 General Election, and the Government has subsequently announced these to be a policy priority. The options considered in this Regulatory Impact Statement are constrained by those Government commitments. No formal policy consultation has therefore been undertaken to date. However, as the project is designed to stimulate private investment in infrastructure from telecommunications suppliers, there is of necessity ongoing discussion with industry on designing an approach that will both address the Government's public policy goals and be consistent with industry needs.

4. The analysis in this paper builds on the policy work undertaken when the current Rural Broadband Initiative was developed. That programme had the policy objective of addressing social and rural exclusion, and of boosting economic growth. As the original Rural Broadband Initiative is still being implemented, it is too early to assess the success of the programme in terms of policy outcomes. This means it has not been possible to provide quantifiable evidence for the expected benefits of the proposed expansion of the Rural Broadband Initiative or the establishment of the Mobile Black Spot Fund. Many of the benefits identified in the paper are of a generic nature, or from broader studies, that are consistent with the intent and nature of the Government's overall Digital Economy Work Programme.

5. While the size of the problem has to some extent been quantified, it is exceptionally difficult to make robust estimates of the area or number of premises over which broadband and mobile coverage can be provided for a given level of funding without going to market. There is no one-size-fits-all solution providing broadband and mobile coverage to the remaining pockets without service, as factors such as population density, terrain, distance from existing connection points, and existing infrastructure all affect costs, and cost per premise. The next stage in this process, to seek Expressions of Interest from potential suppliers, will provide us with more information on what is achievable with the funding available. Despite these limitations, it is clear

that under the status quo there is insufficient funding to implement any programmes to address the problem, while under the 'Large Investment Option' diminishing returns will mean the additional cost to industry is not justified. Experience with current Rural Broadband Initiative indicates that the current level of the levy achieves adequate funding for large-scale rural broadband and mobile programmes.

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Status Quo and Problem Definition

The Telecommunications Development Levy

1. The Telecommunications Act 2001 (“the Act”) imposes a levy on telecommunications providers who receive a minimum of $10 million gross revenue annually. The levy was established to contribute to the cost for such matters as non-urban telecommunications infrastructure development and upgrades to the emergency service calling system (s.90 of the Act). Schedule 3B of the Act currently prescribes that the Telecommunications Development Levy (“TDL”) amount steps down from a collective total of $50 million in 2015/16 to $10 million for 2016/17 and thereafter (with CPI indexing).
2. The TDL has been used to date to assist with the funding of the Government’s Rural Broadband Initiative (“RBI”). The objective of RBI is to ensure that broadband services are available at a reasonable cost to all non-urban New Zealand schools, hospitals, and communities. The RBI is funded by $48 million of Crown funding and $252 million of levy funding (sourced from the TDL), spread over five years. The programme commenced in 2010/11 and is scheduled to be completed by 2016/17. Progress of individual infrastructure deployment projects that are part of the RBI programme are either on schedule or ahead of schedule and this is expected to remain so to completion.
3. It is estimated that around 1 percent of premises in New Zealand (up to 20,000) will have poor or no broadband connection capability once RBI is complete. This is partly because broadband services that were deemed appropriate when the RBI tender was released have degraded due to growing usage of bandwidth-intensive applications, and overloading due to migration of small businesses to semi-rural lifestyle areas.
4. The Government announced in The Speech from the Throne in 2014 that it would continue its programme of investment in modern infrastructure, including that “$150 million will be set aside to improve mobile coverage and broadband connectivity in rural and remote areas”.[1] This commitment has led to the design of a second, extended phase of the RBI (“RBI 2”) and to a proposal for the establishment of a Mobile Black Spot Fund (“MBSF”).
5. The MBSF is intended to address the large gaps in mobile network coverage over major highways and tourist sites – areas of low population but over which network connectivity is important for public safety (through mobile access to emergency services) and to improve visitor experience. It is estimated that State Highways 1, 2, 3, and 6 have mobile ‘Black Spots’ (meaning spots in which access to none of the three mobile networks is available) over 29% of their collective length. Ministers have subsequently announced that the funding allocation between the two programmes will be $100 million on RBI 2 and $50 million on MBSF.[2] The final expenditure for each of the two projects may vary once Ministers consider the market response to tenders and subsequent contract negotiations are undertaken.

[1] http://www.parliament.nz/resource/en-nz/51DBHOH_PAP59335_1/5403af60e0d9fcd26ca407874bece5f9f7e4476e

[2] https://www.national.org.nz/news/news/media-releases/detail/2014/08/26/$150-million-boost-for-rural-broadband-initiative

6. In parallel, the Government is also to expand deployment of Ultra-Fast Broadband ("UFB 2"), but that programme is to be funded from the Future Investment Fund (rather than from the TDL), and is therefore not discussed further in this paper.
7. The development of the policy programme has led to the need to explore the following elements of the levy legislation:
    a. The reduction from 2016/17 in the level of total annual levy payments from $50 million to an ongoing amount of $10 million. (This reduces the funding available for RBI 2 and MBSF and therefore limits the scope and size of the social and economic benefits).
    b. The Commerce Commission has identified a number of operational features of the current legislation that impact on the efficiency of the annual industry contribution process.[3] Amendments to these matters will ensure the annual TDL determination process is streamlined as originally intended.
    c. The Commission has also noted that there is opportunity for levy avoidance through the way that telecommunications service providers corporately structure themselves. Changes to reduce the opportunity for avoidance would ensure a fair allocation of the levy between telecommunications service providers.
    d. The scope of the expenditure categories prescribed in legislation for the use of TDL funds are considered too narrow in some respects to enable the efficient management of TDL funded projects. In particular, the TDL expenditure category for non-urban infrastructure is considered to exclude ongoing operating costs for new non-urban infrastructure deployed with TDL funding. Changes are therefore sought to widen the TDL expenditure category for non-urban infrastructure to allow operating costs for new infrastructure to be TDL funded. Also some new infrastructure planned under the RBI 2 is expected to include facilities that could span both urban and non-urban areas. Changes are therefore sought to expand the TDL expenditure category for infrastructure development to allow integrated infrastructure for both urban and rural areas to be TDL funded.

Policy Objectives

8. The benefits of the broadband and mobile initiatives for rural communities are of both a social and economic nature. In economic terms, the digital economy is one of several areas of activity that can make substantial contributions to achieving growth. Smarter and more prolific use of internet-enabled technologies by business could be worth $34 billion to the New Zealand economy.[4] Yet, there is a risk of digital divide between urban and non-urban areas, which impacts not just on business but educational, health and social outcomes. The benefits for rural areas of improved broadband and mobile coverage are outlined in Annex One.

9. The nature of the policy problem being addressed therefore has dual elements of addressing social and rural exclusion, and boosting economic growth. A key component of addressing this digital divide is to improve domestic and international

[3] Letter from the Commerce Commission, Dr Stephen Gale "Re: Potential legislative amendments to support the operation of the Telecommunications Development Levy liability allocation process", 2 October 2014
[4] Hayden Glass/Sapere Research Group, "the value of internet services to New Zealand business", 2014

internet and mobile connectivity across New Zealand. The Government has a role in assisting New Zealand's responsiveness to technological change by increasing the speed at which we can take advantage of the opportunities presented by ICT. Without investment by the Government, infrastructure development in rural areas would be sporadic and limited, as the expected rate of return on the investment for such new rural infrastructure in remote and less densely populated areas is generally not commercially viable.

10. The policy objectives of changing the TDL are to:
    a. enhance rural welfare with respect to social, education and health goals
    b. enable economic growth objectives, both for rural areas, and over New Zealand as a whole
    c. attract the right level of industry investment in telecommunications infrastructure and services.
11. After experience gained from operation of the levy to date, there is also the additional objective of:
    a. Improving its legislative provisions to increase the efficiency of the annual allocation process, enhance the benefit that can be achieved with the levy expenditure and remove levy avoidance opportunities.

Approach to addressing the Policy Objectives

12. The Government's existing RBI programme was designed to address the rural welfare and economic growth objectives identified above. RBI involves $300m of funding (sourced from the Crown and the TDL) and this has stimulated additional private investment in broadband infrastructure of an estimated $90 - 120m.
13. As the existing RBI programme has yet to be fully implemented it is too early to fully assess achievement of the policy objectives relating to enhancing rural welfare and economic growth. The Ministry of Business, Innovation and Employment (MBIE) will monitor and evaluate the outcomes from the programme over time.
14. As noted in the Agency Disclosure Statement, the proposed RBI 2 and MBSF have been announced as Government policy priorities; therefore the options considered in this Regulatory Impact Statement are constrained by those Government commitments. The proposal to extend the RBI and establish the MBSF expands on the existing programme's policy and objectives. The rationale for the expansion remains consistent with the intent and nature of the original programme, but is designed to accelerate both its reach and magnitude. We note that a 2013 study found that extending rural broadband in the dairy sector alone has a benefit of $9.1 billion over 20 years.[5] The proposed policy also remains consistent with the TDL objectives which include extending rural services and improving the safety of life and property.

Impacts of the levy on Industry

15. The TDL replaced the former Telecommunications Service Obligation (TSO) levies that industry paid on an ongoing basis. The annual TSO charge levied for local telephone service was approximately $65 million per annum.
16. The proposal to continue the TDL at the same level as currently applies (a collective total of $50 million per annum, with CPI indexing) through to June 2019 represents

[5] http://www.tmcnet.com/tmc/whitepapers/documents/whitepapers/2013/6687-building-benefits-broadband-how-new-zealand-increase-social.pdf

about 1% of revenue for liable persons. Liable persons are those telecommunications providers who receive a minimum of $10 million gross revenue annually. The levy is not explicitly recovered from consumers but as it is an underlying cost to the industry, it may be passed on to consumers; however increased competition as a result of levy spending ultimately benefits consumers.

17. While TDL levy payers are telecommunications providers, these levy payers also receives direct benefits from levy spending. Funds are allocated to telecommunications service providers who win tenders to deploy infrastructure that would not otherwise be commercially viable. It is anticipated that much of the future TDL funding earmarked for RBI extensions could be allocated to the larger TDL payers if they secure contracts to supply infrastructure for the RBI extensions. In addition, RBI infrastructure creates opportunities for the industry as a whole as it is open access – the existing RBI contracts with Vodafone and Chorus require both providers to offer wholesale access to their RBI infrastructure. This creates competition within the industry, and particularly provides competitive options for consumers in areas where previously there was no service whatsoever. It is proposed that the open access requirement also apply to infrastructure installed under RBI 2 and the MBSF. Consultation with industry via an Expression of Interest (EOI) will seek feedback on the practicality of open access requirements in the case that RBI 2 contracts are won by smaller service providers, or on region-by-region terms.
18. The proposal to amend provisions in the legislation relating to the annual levy liability allocation process would become more streamlined, as was originally envisaged. The changes would also reduce levy avoidance opportunities so there is a fair spread of the levy liability across the telecommunications industry.

Regulatory Impact Analysis

19. This Regulatory Impact Analysis considers each of the four proposed categories of amendments to the TDL (as outlined in paragraph 4 above) separately. The four proposed amendments in summary are to address:
    a. The level of the annual levy between 2016/17 to 2018/19
    b. Levy provisions relating to inefficiencies in the annual allocation process
    c. Levy provisions relating to opportunity for avoidance
    d. The statutory provisions which define the expenditure categories prescribed for the use of levy funds on infrastructure development.
20. As noted in the Implementation section, the first of these issues will be considered by Cabinet alongside proposals for the RBI 2 and MBSF projects, while the remaining three issues are expected to be considered by Cabinet later in the year. While these last three issues are not being considered by Cabinet alongside the level of levy, they have been included in this Regulatory Impact Analysis for the sake of transparency, enabling Ministers to see the overall picture and ensure the proposal is co-ordinated and fully integrated.

Levy as between 2016/17 to 2018/19

21. The possible options are summarised in the table below, with the preferred option highlighted. Each option is then discussed in the text following.

Option	Considerations against the objectives
a. Status Quo: Do not alter the	The opportunity to improve rural welfare and

prescribed levy amount (maintain the statutory reduction from 2016/17 to an ongoing level of $10 million per annum).	New Zealand economic growth would be foregone if digital infrastructure investment is curtailed, and additional industry investment would not be attracted.
b. Smaller Investment Option: Amend the prescribed levy amount by decreasing the statutory rate of its reduction by 50% over the years 2016/17 to 2018/19 (results in additional levy funds of $60m over 3 years).	The resulting level of levy funding available is likely to be too low to attract private investment, with consequently less leverage to address the rural welfare and economic growth objectives.
c. Mid Investment Option (preferred option): Amend the prescribed levy amount by delaying the statutory reduction in payments from 2016/17 to 2018/19 (results in additional levy funds of $120m over 3 years).	The resulting level of levy funding available is expected to enable considerable progress towards reducing the digital divide, and is likely to attract significant private investment.
d. Large Investment Option: Amend the prescribed levy amount by both delaying the statutory reduction in payments from 2016/17 and increasing the levy amount by an additional $20m to 2018/19 (results in additional levy funds of $180m over 3 years).	The greater resulting level of levy funding available will be unlikely to generate sufficient financial returns to attract private investment due to diminishing returns in addressing the most isolated underserved areas. More efficient technological solutions may arise to address remaining underserved areas in the future.

Option (a): Do not alter the levy payment amount or alter levy provisions (status quo)

22. The first option would be to maintain the current statutory provisions of reducing the TDL from its annual sum of $50m to $10m in 2016/17.
23. This would impose no additional cost on industry.
24. None of the policy objectives outlined in paragraph 7 would be achieved and we therefore do not recommend this option.

Option (b): Amend the levy by decreasing the rate of its reduction by 50% over the statutory period (results in additional levy funds of $60m over 3 years)

25. The second option would halve the existing statutory reduction in the TDL, and so reduce the scope of the planned rural broadband and mobile infrastructure build. The smaller RBI 2 and MBSF projects would result in less market interest in the policy programme, and given its smaller scope, reduce the Crown's negotiation leverage required to create incentives for private suppliers to invest in infrastructure. It is likely that the RBI 2 would be limited to achieving an improvement in performance of existing broadband by, for example, an upgrade of selected roadside cabinets. It is unlikely that a significant increase in population coverage for access to fast broadband could be achieved. Based on our recent experience we anticipate that well over 50% of remaining dwellings can be upgraded economically to support broadband services. The expansion in coverage could not be achieved with a reduction in available funding, as much of it would be consumed by high cost backhaul.
26. Initial estimates suggest that halving the planned MBSF would address only around 50 sites on the State Highway network. Given the large area of Black Spots on the network, this option would have a limited impact on improving public safety (through mobile access to emergency services) or improving 3G/4G coverage at important tourist sites. This in turn reduces the ability to achieve additional rural broadband coverage to align with the policy objective of RBI 2.
27. This option would impose a relatively minor additional cost to the industry.
28. We do not recommend this option as it would fail to address the rural welfare or economic growth objectives, and the benefit achieved by the investment would be less efficient, given reductions in scale and negotiation leverage.

Option (c): Amend the levy by delaying the reduced payment to 2018/19 (results in additional levy funds of $120m over 3 years)

29. The preferred option is to make considerable progress towards reducing the size of the digital divide between urban and rural New Zealand, while also being mindful of the diminishing returns that arise as coverage is increased. The rural welfare and economic growth objectives will be significantly advanced by RBI 2 and MBSF projects designed around the level of levy extension proposed by this option. Based on experience with the existing RBI programme, we assess that at this level it is likely that additional private sector investment, as well as financial or regulatory assistance from local authorities, could be successfully leveraged.
30. There is a risk that there will be insufficient interest from suppliers to invest in the projects. However, we assess this unlikely, particularly given the range of technology solutions that could be considered to meet the RBI 2 objectives; these range from upgrades of roadside cabinets to fixed wireless and satellite options. Based on our recent experience between 50 to 70% of remaining dwellings can be reached through cabinet upgrades, with much of the balance under this option gaining coverage by a range of wireless solutions.
31. This option would impose a moderate additional cost on industry, at approximately 1% of revenue for liable persons.
32. We recommend this option, as it addresses the policy objectives outlined in paragraph 7 above. It imposes a levy of a magnitude that, when used by the Crown to fund further infrastructure development, will stimulate private sector investment. This moderate level option also avoids the risk of funding infrastructure which could be superseded by cheaper options over the next few years as technology develops further to enable cheaper and more effective solutions.

33. We note that our assessment that the additional $40 million per annum ($120 million over 3 years) would result in the most beneficial outcome can be tested further once industry and stakeholder information is received upon the release of a proposed Expression of Interest (EOI) document outlining to potential providers and stakeholders the nature and scope of the proposed UFB 2, RBI 2 and MBSF, and seeking feedback on policy and technical elements.

Option (d): Amend the levy by both delaying the statutory reduction in payments from 2016/17 and increasing the levy by an additional $20m to 2018/19 (results in additional levy funds of $180m over 3 years)

34. While Option (c) balances further expenditure against diminishing returns of ongoing infrastructure investment, this option provides for a level of investment where the investment yield can be expected to be lower overall. This is despite the likelihood that an additional funding of $60 million would neither be sufficient to provide all premises high performance broadband coverage, nor eliminate all Black Spots on State Highways and tourist sites. However, over time, there are likely to be an increasing and cheaper range of technological options available to address remaining coverage issues. Rapid technological progress in the sector makes it prudent to design intervention at a level that stimulates private investment, rather than seek to achieve a level of coverage where even smaller market participants are unlikely to invest.
35. This option would impose a relatively high cost to the industry.
36. We do not recommend this option, as although the policy objective could be achieved, it would involve a higher level of cost and intervention than is justified. There are considerable diminishing returns on investment in addressing the outstanding underserved areas.

Levy provisions relating to inefficiencies in the annual allocation process

37. The proposal to amend provisions in the legislation relating to the levy allocation determination process (which have been suggested by the Commerce Commission) would reduce the time involved and the delays that can arise during the process. The proposed amendments would result in a more streamlined process, as was originally envisaged.
38. The Commission's proposed amendments (which will be considered by Cabinet later in the year) are set out in greater detail in Annex Two, but the broad issues they are intended to address can be summarised as follows:
    a. company failures are not effectively taken into account in the levy allocation process
    b. lack of clarity that preliminary information disclosures may be met with financial information pertaining to the liable person's financial year
    c. provisions relating to when two or more bodies corporate must be treated as one person are complicated when firms are linked only through Crown interests
    d. some definitions create unnecessarily high compliance costs which could be reduced by focussing them more on TDL context
    e. auditing requirements
    f. the impact TDL delays have on the TSO cost calculations.

Option	Considerations against the objectives
a. Status Quo: Do not alter the provisions relating to the annual levy allocation process	**Levy inefficiencies not addressed**
b. Amend a number of provisions that will clarify the annual process and improve its operation	**A more efficient, streamlined annual process would be achieved**

Analysis of Option (a) and (b)

39. Experience with the levy process has revealed ways it could be improved, such as being able to exclude from the TDL process any telecommunications service providers that have closed, become bankrupt, or been placed into liquidation or receivership. A number of other operational matters, such as standards relating to auditing and issues around self-identification, each contribute to delays, uncertainty and inefficiency in the process.
40. We recommend the operational improvements to the annual allocation process be further explored and specific proposals be considered by Ministers.

Levy provisions relating to opportunity for avoidance

41. Information has been received from the Commerce Commission on opportunities for avoidance under the current statutory provisions. For instance there is low awareness by new operators of their levy obligations and the requirement for parties to self-identify if they have an obligation. Further detail on this issue is included in Annex Two.

Option	Considerations against the objectives
a. Status Quo: Do not alter the levy provisions that leave opportunity for levy avoidance	**Levy avoidance issues not addressed**
b. Amend levy provisions to reduce opportunities for levy avoidance	**The fair allocation of levy liability across telecommunications service providers.**

Analysis of Option (a) and (b)

42. The statutory levy is shared between telecommunications service providers, based upon certain definitions and methodologies as outlined in s.82 of the Act. The Commerce Commission has identified that there is a significant challenge for both the Commission and for liable persons in the way the section is designed and functions.

Some uncertainty also arises under its operation, which gives the opportunity for avoidance. Avoidance by persons intended to be liable for the levy, in turn, imposes a greater financial burden on other complying persons.

43. We therefore recommend that amendments to reduce levy avoidance be further developed for the consideration of Ministers.

Levy provisions relating to categories of expenditure

44. As has been noted above, aspects of the expenditure categories for levy funds prescribed in legislation are considered too narrow in some respects to enable the efficient management of TDL funded projects. For example, the definition of the expenditure category for infrastructure development confines the geographic areas where TDL funded infrastructure may be located within the scope of the category defined by "non-urban" facilities only. Without amendment to the statutory definitions, RBI 2 and MBSF will result in reduced efficiencies, reducing improvement in both broadband and mobile coverage and performance.

Option	Considerations against the objectives
a. Status Quo: Do not alter the provisions defining the categories of levy expenditure	**Less efficient expenditure as some desired infrastructure development may not fall discreetly within the current statutory non-urban category definition**
b. Amend the categories to ensure the scope remains "non-urban" in focus but may, for example, include facilities that could be across urban and non-urban areas	**More benefit gained for rural infrastructure, increasing the efficiency of the expenditure**

Analysis of Option (a) and (b)

45. We recommend that specific proposals to amend the relevant statutory provisions be developed for the consideration of Ministers, as some of the new infrastructure planned under RBI 2 is expected to include facilities that could be across both urban and non-urban areas. Changes to the definition that expanded the use of TDL funds for urban and rural infrastructure may therefore be more efficient.

Conclusion and Recommendations

46. The Act established the TDL with the objective of, amongst other things, extending rural services and improving the safety of life and property. The existing RBI project was an important initiative to give effect to these objectives, and the proposed extension of the RBI and the establishment of the MBSF build further on the earlier initiative.

47. MBIE considers that the Act should be amended to alter the levy by both delaying the statutory reduction in payments from 2016/17 and increasing the levy amount by an additional $40m a year to 2018/19 (Option (c)). This results in additional levy funds of $120m over the 3 years, which would be applied to addressing the rural welfare and economic growth objectives through the planned RBI 2 and MBSF projects.

48. In our view, the size of the levy would enable considerable progress to be made towards reducing the size of the digital divide between urban and rural New Zealand, while also avoiding the diminishing returns that arise as coverage is increased. The RBI 2 and MBSF projects are designed with the objectives of:
    a. enhancing rural welfare with respect to social, education and health goals
    b. enabling economic growth objectives, both for rural areas, and over New Zealand as a whole
    c. attracting the right level of industry investment in telecommunications infrastructure and services.
49. We also recommend that the Act be amended to improve the levy provisions to ensure it is more efficient and effective by altering the limitations on the use of levy funds, inefficiencies in the annual liability allocation process and to address levy avoidance concerns.

Consultation

50. While formal consultation (for instance, via a discussion document) has not been undertaken, MBIE regularly engages with the telecommunications industry, and as such the issues considered by this Regulatory Impact Statement have been widely canvassed with the industry. MBIE has monthly meetings with the New Zealand Telecommunications Forum (TCF), which represents levy payers and others in the industry, as well as monthly meetings with the major network operators.
51. The intention to continue the levy at its current level was communicated openly during the election campaign and that intent became Government policy when it was subsequently announced in The Speech from the Throne.
52. As noted in relation to implementation below, the proposed levy changes that do not relate to the level of the levy are expected to proceed on a slower track than the change to the level of levy. This provides additional time to further familiarise the industry with the proposed changes, and in addition as these proposed changes require legislative change to the Telecommunications Act 2001, the normal Parliamentary processes provides another opportunity for industry input.
53. The TCF has already provided the Minister of Communications with a submission stating that it "recognises the need for investment in the provision of public good initiatives and understands that government has a role in facilitating and funding the provision of infrastructure in circumstances where commercial parties cannot justify a business case for such investment", but that "any proposal to extend the levy would not be appropriate". It prefers to work with government to find a sustainable funding solution to public good initiatives.

Implementation

54. The legislative change required for the levy payment amount will be considered by Cabinet in the context of the proposals for the RBI 2 and MBSF projects (as well as the UFB 2 project). At that time Ministers will decide on the policy design and commercial parameters of those projects, and establish a process for assessment of associated business case information.
55. Amendment of the levy provisions relating to the other issues considered in this Regulatory Impact Analysis – the operation of the annual allocation process, the avoidance opportunities, and prescribed expenditure categories – are expected to be considered by Cabinet later in the year.

Monitoring, Evaluation and Review

56. We will monitor the effectiveness of the proposed levy change by working in collaboration with the Commerce Commission to oversee the annual levy allocation process.
57. We will monitor and evaluate the outcomes from the RBI 2 and MBSF programmes over time to ensure that the programme is achieving the policy objectives of enhancing rural welfare and economic growth.

Annex One: Benefits for Rural Areas of Improved Broadband and Mobile Coverage

The benefits for rural areas of improved broadband and mobile coverage include:

Social

a. Education – having a broadband connection, or a faster broadband connection, will enable people living in remote areas to have easier access to distance learning, and will enable people to engage in distance learning courses for continuous learning outside of work hours. Having young people engaged in education increases opportunities for employment later on.
b. Health – improved provision of health services over broadband, including remote health monitoring, can have a significant positive impact on the service-user. Follow up consultations remotely could mean fewer nights in hospitals, or less travel to and from health services.
c. Connection to government and NGO services – many government and NGO services are now being offered online. People living in remote areas already face barriers for interacting with government services, such as, opening hours and location of services. Allowing people to interact online will give people the ability to interact at more convenient times, and to cut down on travel times. Over time, with a greater move to digital services, there would reduction to the cost of service delivery.
d. Social inclusion – loneliness and social exclusion can be an issue for people living in remote places, those who have difficulty leaving their homes and those who find it hard to interact with people face-to-face. Finding support groups online or having the means to connect over the internet, for example, via Skype, may lessen the impact of exclusion. Better social inclusion can have beneficial impacts on a person's overall wellbeing, securing employment and better health outcomes.[6]
e. Day-to-day transactions – the convenience of transacting online for activities such as banking and shopping are beneficial to those who would otherwise find it difficult to get to amenities. Allowing more people to transact online can have benefits to the economy as well.
f. Entertainment – having access to a wide variety of entertainment can have a positive impact on a person's overall wellbeing.
g. Emergency services – reducing mobile Black Spots, particularly on the State Highway network, will enhance emergency response.

Economic

a. Ability to run businesses – access to broadband, or faster broadband, will allow all aspects of a business that involve communications and learning (such as

[6] https://www.gov.uk/government/publications/government-digital-inclusion-strategy/government-digital-inclusion-strategy

marketing, selling, procurement, interaction with the Government and advisors, and up-skilling) to be undertaken much faster and more efficiently.

b. Flexibility in working arrangements – access to broadband will allow people to work from home or outside of a normal office environment.
c. Online sales – increased online sales has a positive impact on the economy. It can also be more convenient for rural people to shop online rather than go to their nearest shopping precinct.
d. Precision farming – precision mapping of soil conditions allows farmers to target irrigation and fertilising to maximise efficiency and benefits.
e. Setting New Zealand up as a good place to transact – fast, reliable broadband coverage will make New Zealand a more attractive place for international organisations to transact with, or to use services such as cloud-based data storage.
f. Easier to import/export – fast, reliable broadband connections will increase opportunities to do business online, including importing and exporting goods.
g. Makes rural areas more attractive place to live – a current problem for the agricultural sector is difficulty in recruiting and retaining staff to live and work in rural and remote areas. Many people do not want to live in areas that are not serviced by mobile phone coverage and broadband. There are also issues of staff safety, particularly in remote areas, when there is no fast and reliable method of communication.
h. Lower transaction costs – the cost to businesses of making simple transactions, such as meetings, can be significantly reduce if broadband services are fast enough to support video links and live streaming of events.

Annex Two: Matters arising from the Telecommunications Development Levy Allocation Process

Issue	*Possible amendments or actions*
Compliance with s 82	Section 82 requires industry parties to self-identify if they have an obligation to provide information to the Commission. However, awareness of this obligation is not high amongst many of the newer or smaller operators (who will likely be covered by the obligation in coming years). This means that while the Commission endeavours to secure compliance from all the parties that need to comply with s82, it is possible some parties will elude the Commission's efforts.
Company failure	Provide an amendment to allow the Commission to exclude from the TDL process any qualifying liable persons that have closed, are bankrupt, in liquidation or receivership. This could be done by adding a specific power in s. 85 formula for the Commission to exclude a qualifying liable person; where there is sufficient evidence to conclude that the Crown will be unable to collect the TDL liability from that person.
Preliminary information disclosure and the financial year end	Provide an amendment to clarify that the specific requirements in ss. 81 and 82 can be met with financial information pertaining to the liable person's financial year.
Problems associated with the application of section 79	Revise s. 79(1), relating to when two or more bodies corporate must be treated as one person, so that it does not apply to firms whose only link is that the Crown owns shares that control 20% or more of the voting power. Review and amend the definitions in s. 80 to make it more focused on providing information relevant to the TDL context, reducing potential compliance costs, and remove ambiguity over whether financial statements are referred to in the singular or plural.
Auditing the correct and complete requirements *&* *Proportionality and cost of auditing*	To resolve problems associated with the auditing standards requirements and proportionality in relation to auditing costs, consider either: • *empowering* the Commission to specify an alternative form of assurance or certification; or • making the assurance requirement consistent with that for fibre information disclosure by replacing s. 83(2) with wording based on s. 156AV(d) and (e).
Impact of the TDL delays on the TSO cost calculations	Amend s. 91 to allow for TSO cost calculations to be finalised without reference to the TDL liability allocation determination for the same financial year.