Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By:	Coalition	Proposal No:	Y059
Date Referred:	20/02/2019	Date Published:	18/03/2019

Proposal Title: Regional Digital Connectivity

Cluster: Premier and Cabinet

General Government Sector Impacts

	2018-19 $'000	2019-20 $'000	2020-21 $'000	2021-22 $'000	4 year Total $'000
Expenses (ex. depreciation)	-	5,432	16,296	27,448	49,176
Depreciation	-	1,800	5,700	10,100	17,600
Less: Offsets	-	-	-	-	-
Revenue	-	1,250	3,750	6,250	11,250
Net Operating Balance:	**-**	**(5,982)**	**(18,246)**	**(31,298)**	(55,526)
Capital Expenditure	-	90,000	105,000	115,000	310,000
Capital Offsets	-	-	-	-	-
Net Capital Expenditure:	**-**	**90,000**	**105,000**	**115,000**	**310,000**
Net Lending/(Borrowing):	**-**	**(94,182)**	**(117,546)**	**(136,198)**	**(347,926)**

Total State Sector Impacts

Net Lending/(Borrowing):	**-**	**(94,182)**	**(117,546)**	**(136,198)**	**(347,926)**

Notes and costing assumptions

This policy proposes to provide $300 million capital investment in mobile black spot towers and $100 million capital investment in building 6 data centres from 2019-20 to 2022-23.

Based on the information provided by Department of Premier and Cabinet (DPC), NSW Treasury and NSW Telco Authority, the policy reduces the net operating balance over the forward estimates by $56 million, driven by maintenance, operating expenses and depreciation for the towers and data centres. Ongoing recurrent expenses and revenue are based on the assumption that the towers and data centre remain in public ownership.

Adding in the cost of the capital works themselves, net lending is reduced by $348 million over the forward estimates. There are additional costs in 2022-23 and beyond when construction of towers and data centres is completed. Maintenance, operating expenses and depreciation costs will be ongoing.

Key assumptions

- As advised by DPC, the costing assumes no land acquisition cost to implement this policy. The locations of the infrastructure are in regional/remote NSW where land is either owned by the government, or the government is in a position to negotiate with land owners to install the infrastructure with no cost, given the benefits of improving connectivity to regional residents, including those land owners.

Notes and costing assumptions continued:

- The policy assumes that a total of $400 million of capital funding would be deducted from the Snowy Hydro Fund. This will require a new appropriation. The costs to operate and maintain the facilities and asset depreciation are recurrent and would continue beyond the forward estimates. As these expenditures cannot be funded from the Snowy Hydro Fund (as per the Fund guidelines), the costing assumes that additional consolidated fund allocation would be required to cover the recurrent costs.
- DPC has advised that the administration cost of this program could be absorbed by the department.

Capital works - construction costs

(1) Mobile black spot communication towers - average unit cost of $750,000/ per tower

DPC advised an average construction cost for a new mobile black spot tower for the proposed policy is $750,000. The proposed mobile towers have higher average costs than the existing 183 sites in the Commonwealth's Mobile Black Spot program ($715,095) due to increased remoteness/difficulty of access.

Profiling of the proposed tower construction has been spread equally over 4 years. The costing assumes that relevant business cases and scoping studies will be finished in early 2019-20, with construction starting soon after.

(2) Data centres - average unit cost of $16.7 million/ per centre

The policy specifies $100 million investment in building 6 regional data centres, at an average unit cost is $16.7 million per centre.

Profiling of expenditure has been estimated by Treasury following discussions with DPC. The costing assumes construction starts in 2019-20.

Depreciation costs

The costing uses an average useful life of 25 years per mobile tower and data centre. Depreciation is estimated based on 50% of construction being completed within the first 6 months of each year.

Operating costs

NSW Telco Authority advised that the average cost to operate and maintain a communication tower is between $75,000 - 100,000. The variation in operating costs depends on tower location, tower specifications, equipment used onsite in the tower hut and the antenna itself. Given the increased remoteness/difficulty of access of the towers, the PBO assumes average maintenance cost of the high end at the range, around $100,000. This will be more accurately determined as part of the business case development.

Treasury advised that the operating cost of each data centre is approximately $480,000 a year. Costs include maintenance, utilities, site access and support resources.

Revenue

NSW Telco Authority advised that the funding model for the program is currently structured through a one-off grant expense, which is paid to carriers to incentivise to build in areas that are not economically viable for them. Under the current funding model, no assets are generated for the government and there is no potential revenue for the government.

If under this policy, as is assumed, the mobile towers and data centres remain as government assets, there may be some scope for revenue from co-locating private sector equipment at a government-owned site. Potential revenue is difficult to determine, and will only become apparent in negotiations with carriers, but some is possible as carriers seek wider coverage. The PBO has assumed around $25,000 per tower. This will need to be confirmed as part of the business case.