Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Budget Estimates Hearing – May 2010

Finance and Deregulation Portfolio

Outcome 2, Program 2.1
Topic: National Broadband Network

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Senator Cormann asked:

Senator CORMANN—It is over a period of time—and maybe Mr Martine can assist us here—but after 10 years your cost of funds is still up at nine to 12 per cent.
Mr Tune—Yes.
Senator CORMANN—So how do you cover that cost in the first 10 years?
Mr Tune—I would have to go back and look at the implementation study.

Answer:

It is necessary to distinguish between the cost of funds to NBN Co and the cost of funds to Government. As the Implementation Study proposes that NBN Co be funded solely by Government equity injections until it can raise its own debt (around six years into the rollout), only the Government's cost of borrowing would need to be covered over this period, not NBN Co's.

The Implementation Study base case envisages that the Government can fully recover its investment, including interest costs, as it can expect to earn a rate of return on its equity investment sufficient to fully cover its cost of funds over the life of the project. The Implementation Study recommends Government retain full ownership during the early years to nurture the company through the early build phase and ensure the Government's policy goals can be achieved.