Providing Essential Broadband Services: The Recent (Problematic) Irish Experience

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Introduction

- High speed broadband – an essential service especially since Covid-19.

- Ireland's *National Broadband Plan* first announced 2012 with a contract eventually signed at end of 2019.

- Cost of subsidy to the State escalated significantly (from €350 million to €2.2 - €2.9 billion) during procurement process and process marred by controversy.

- This paper focuses on
  - Rationale for regulatory choice (in this case PPP/Gap Funding model).
  - Governance of the procurement process, delays, cost escalation.
  - Associated Political dynamics.
  - Examine these issues through the lens of Transaction Cost Regulation

Background

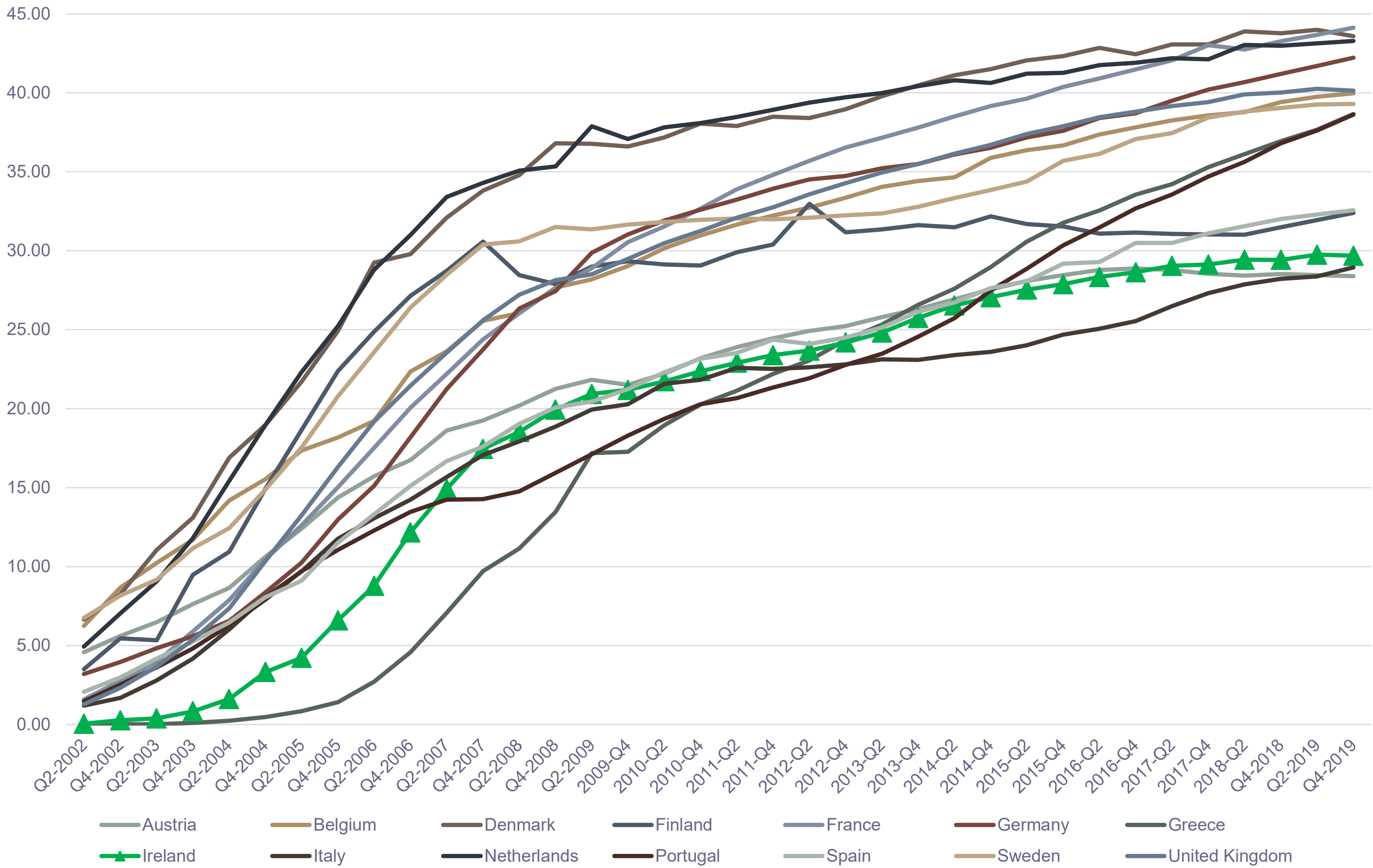
- Historically, rollout of broadband in Ireland has significantly lagged behind European counterparts

- Main reason was ill-fated decision to fully privatise national telecoms operator (Eircom - **now Eir**) in 1999

  - Followed by seven changes in ownership (including 2 LBOs)
  - Cash extraction and underinvestment in fixed-line network
  - Examinership in 2012 and taken over by creditors
  - Eircom also actively thwarted competition in fixed-line.

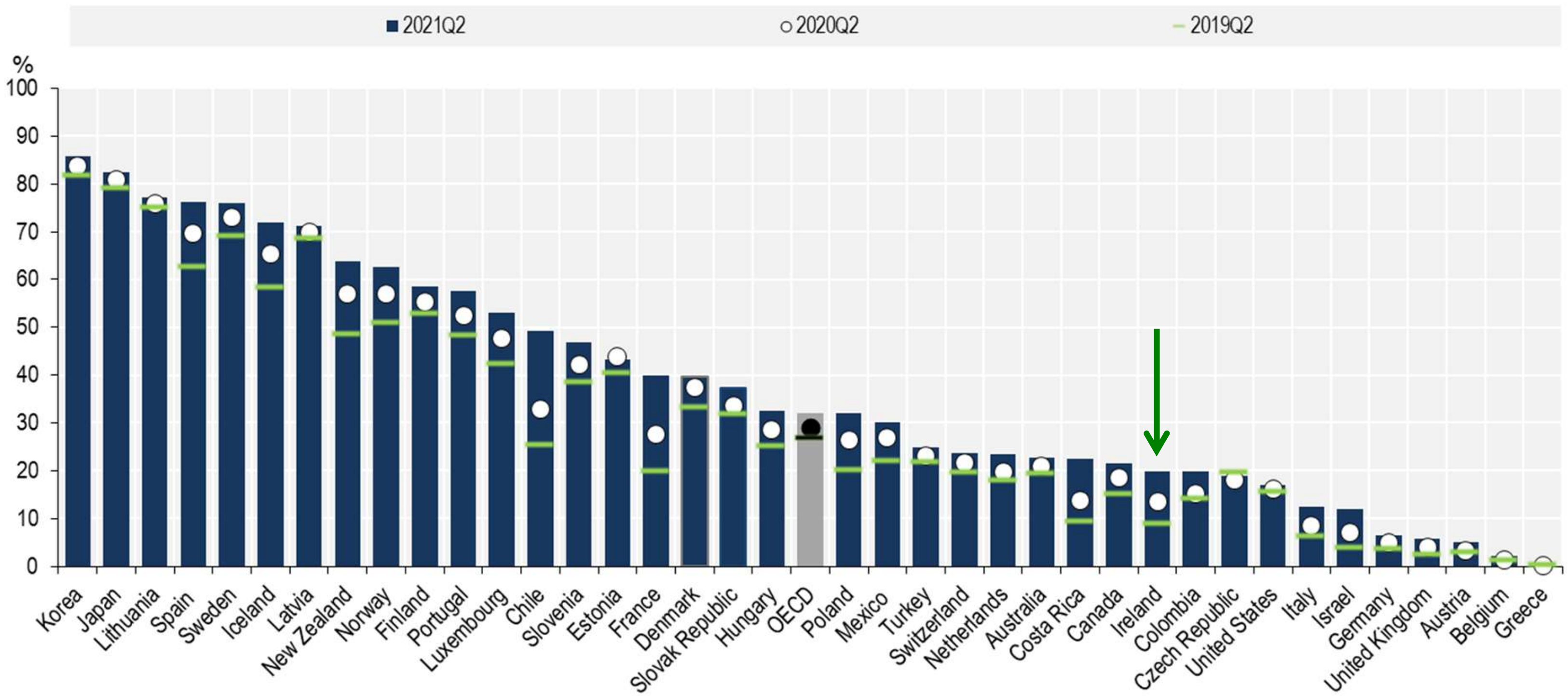
Fixed broadband penetration rate

(subscriptions per 100 habitants)



% of fibre connections in total fixed broadband

June 2021



National Broadband Plan – Sequence of events

- First major government intervention since privatisation.

- NBP first announced in 2012 and set a target of minimum 30Mbs download speeds for all households in Ireland ahead of 2020
  - Plan stated that total cost would be €350m with State co-funding half of this amount along with private sector

- In December 2015, contract notice issued in OJEU.
  - 2 potential ownership models.
  - Both were PPP-models: DBFOM or “gap funding” commercial stimulus approach
  - Plan covered backhaul and local access wholesale network for 757,000 premises in rural Ireland

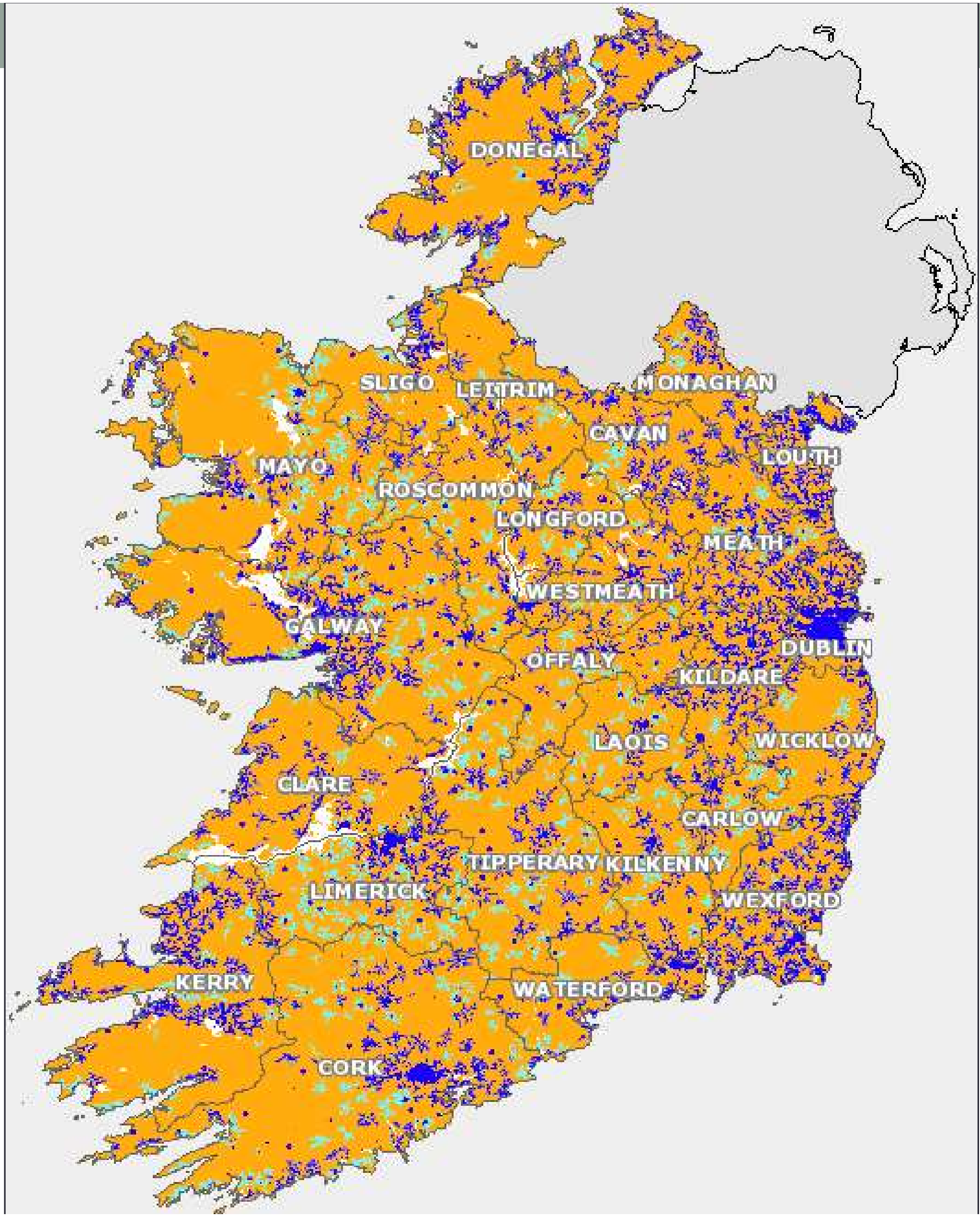
- July 2016: government announces it will proceed with a gap funding model and three bidders shortlisted
  - Eir (incumbent operator), Siro (JV between Vodafone and Ireland’s state-owned electricity utility) and Granahan McCourt (private equity)

Gap Funding Model

- A type of PPP (Long term infrastructure contract).
- Private sector designs, builds, operates and finances the project.
  - Private sector does not provide 100% finance
- Gap is filled by public sector (effectively a subsidy).
- Asset remains in private ownership at end of contractual period.
- Unlike PPPs used for motorways (Concessions) or Social Infrastructure (DBFOM).

Things fall apart…

- April 2017: a commitment deal is signed with Eir to deliver high-speed broadband to 300k premises within NBP area
  - 300k premises carved out were most comercially viable in area and meant that average cost (and subsidy) required to reach remaining homes would increase dramatically
  - EU state-aid rules left government with no choice in relation to signing agreement
  - This fundamentally changed nature of the whole intervention and led to withdrawal of Siro in September 2017, followed by Eir in January 2018



- Amber area = NBP target intervention area
- Light blue = areas where Eir has committed to roll out b/band to 300k homes
- Dark blue = areas where commercial operators are delivering or plan to deliver high-speed broadband services

Things fall apart…continued

- October 2018 when Minister for Communications resigned over series of private meetings with remaining bidder
  - Subsequent review found procurement process had not been compromised.

- Appointment of remaining Granahan McCourt-led consortium as preferred bidder in May 2019
  - intense public scrutiny and political backlash.

- In November 2019, NBP contract signed with an estimated cost of subsidy to Exchequer of between €2.2 to €2.9 billion

Government will not own broadband network when built

Government is paying bulk of cost while ceding ownership to private entity

Will we regret national broadband decision in years to come?

We are still paying the price for foolish decision to fully privatise Eircom in 1999

Fast broadband, quick bucks and another PR bellyflop

Department 'cooking the books' on broadband cost benefit, TD claims

Opposition warns project may never be delivered as bidder as 'so little skin in game'

Government's failure over broadband deal details 'an affront' to taxpayers

Fianna Fáil says reported €200m Granahan McCourt investment would be 'farcical'

Focus of our paper

- 2 main issues

- 1. Study the rationale for the regulatory choice (ownership model).

- 2. Examine the governance of the procurement process.
  - especially time delays and cost escalation

1. Examining the Rationale for Regulatory choice

- 5 ownership models originally considered (KPMG)
  - Including public enterprise.

- Reduced to 2 options in December 2015
  - DBFOM v. Gap Funding

- Gap funding model chosen (July 2016).

- Did this decision make economic sense?

Economic theory and regulatory choice

- Transaction costs economics (TCE). Williamson (1979, 1999).
- *Economic hazards* - Uncertainty, Complexity, Asset Specificity, Small Numbers Exchange, Opportunism.
- TCE predicts that the ***choice*** of regulatory model is shaped by contractual hazards.
- The greater the hazard the greater the likelihood of adopting a non-market approach.
- This didn't happen in the case of the NBP!!!!

Other questionable justifications for the regulatory choice

- Official Justifications for PPP-style options:
  - Competition for contract from industry players (“strategic value”).
  - Risk transfer.
  - Recommended as cheapest option to government.
  - Off-balance sheet financing?

2. Governance of the Procurement

- Good governance: Continuity of ongoing relations, stability, adaptability, co-operation etc.
- Hazards to good governance identified in….

- Transaction Cost Regulation (TCR) Spiller (2012, 2013, 2014)

- 2 Pillars – (1) Transaction Cost Economics and (2) Positive Politics.

- *Political hazards* – Government and Third Party Opportunism.

- TCR sheds light on the ***workings*** of the regulatory model.

- TCR illuminates the nature of contractual governance by assessing *"real people, in real environments within real institutions"* (Spiller, 2013)

Understanding events

- Contractual Hazards (TCE):
- Firm opportunism – Eir (incumbent monopolist and bidder)
  - Legacy of privatisation in 1999.
- Removal of competition (small numbers exchange, etc.)
- Political dynamics (TCR):
  - Increasingly turbulent 2018-19.
  - Minister resigned in November 2018
  - Unprecedented intervention by Department of Public Expenditure.
  - State aid rules ‘obstacle’ (government opportunism?)
  - Parliamentary Inquiry - Report August 2019
    - 10 Recommendations including:
    - Independent review of viability of an alternative regulatory choice (e.g. award to ESB)
    - A new CBA.
- Contract Signed December 2019

Conclusion

- Flawed nature of original regulatory choice.
- (Result – Cost escalation and delays)

- KPMG and government underestimated risks associated with competition and opportunistic behaviour by incumbent.

- Political factors played a major role once competition collapsed and costs escalated.

- Since contract was signed, significant delays in rollout have occurred and it remains to be seen whether plan will be delivered on schedule.

- Thank you!

- Questions? Discussion?