

# Conclusions of the National Audit Office

## Support for the building of broadband network

The audit covered the performance of central government authorities' activities in carrying out the national Broadband for all project. The objective of the project was to promote the availability of versatile and high-standard communications services, also with public funding, in areas where no adequate demand for commercial broadband supply exists. The objective was laid out in the Government Programme of Prime Minister Matti Vanhanen's second cabinet (19 April 2007). By the end of 2014, approximately 72.3 million euros in European Union and state aid had been granted to broadband projects; 51.6 million of this amount had been paid out, and authorisations of 24.4 million remained for 2015.

The project is part of the national action plan to improve the infrastructure of the information society, and the goals originally set for it were presented in a proposal prepared by a rapporteur appointed to study the feasibility of the project. According to the proposal, good telecommunications connections have become a necessity, and fibre optic broadband is the only long-term alternative in meeting the requirements for high-speed connections. The goal was to increase coverage of high-speed networks so that over 99% of permanently occupied residences and premises of companies and public administration can have a symmetrical, 100 Mbps broadband connection with public support by the end of 2015. In practice, an access point to backbone was to be found within two kilometres of a residence or premises. It was estimated that the project would give about 130,000 new households a possibility to get a broadband connection.

## The conditions in which the national project was implemented were essentially different from what was originally expected

The circumstances for the national project changed essentially from what was originally expected as large national telecommunications operators withdrew from the project. The large operators had prioritised wireless broadband connections in their sales strategies, the demand for which was experiencing a strong growth at the time of launching of the national Broadband for all project. They also actively marketed wireless connections to households that were envisaged as customers of the Broadband for all project. Accordingly, the implementation of the Broadband for all projects became to a big degree dependent on less well-resourced companies. For some projects, no implementers could be found.

Central government authorities saw no possibilities to intervene in the lack of supply in broadband network building. In the new situation, municipal residents intended as the beneficiaries began to set up new companies to implement the project. Most of these companies were co-operatives. The number of companies implementing Broadband for all projects exceeded twenty. As a result the network structure became fragmented, making the management of large network systems as a whole more difficult.

## State aid helped to activate the building of Broadband for all networks on market terms

The purpose of the national project was to promote the digital services no more extensively than by implementing those projects having potential for commercially profitable operation. The Regional Councils saw more than this at stake: safeguarding the citizens' equality in everyday information society.

State aid and the participation of municipalities in project funding helped match the supply and demand for high-speed subscriber connections at a price lower than the prevailing price level. Rather than offering connections at equal prices to all subscribers, the building of the broadband network was guided by the fundamental balance of demand and supply.

## Over 70% of the target for network building can be achieved

The audit suggests that the national project is about to bring a symmetrical, high-speed broadband network (100 Mbps) within the reach of estimated 90,000 households, with an access point to backbone at two kilometres or less. The outcome is some 70% of the original target. The estimate is based on the project completion rate in June 2015.

On average, the subscriber connections and the services in them can be considered reasonably priced, to the extent that customers have purchased them. A subscriber connection has been purchased only by 30% of the potential customers. Reliable assessment of whether or not the connection and its services are reasonably priced is currently affected by significant uncertainty due to the different pricing practices of the operators.

The Ministry of Transport and Communications notified the European Commission of the continuation of the aid programme of the Broadband for all project until the end of 2019. A decision on the notification was issued by the Commission on 15 December 2015. If the building work that was under way in June 2015 can be successfully completed, the target for network building may, thanks to the continuation of the aid programme, be achieved better than estimated above.

## Major regional differences in productivity partly explained by the division of municipalities into co-funding share classes

In terms of realisation of project plans and cost-effectiveness of accomplishments, the projects in the regions of North Karelia, Kymenlaakso, Lapland and North Ostrobothnia succeeded best as well as the project in municipalities where the state aid share was the highest. Satisfaction of the companies building the broadband network with the authorities' performance in processing applications and informing the companies varies in parallel with the indicator values describing the realisation of project plans. There are major differences between various regions.

Classification of municipalities in terms of project implementation locations (co-funding share classification) affected project implementation more than the objective of broadband services availability in remote areas and the reasonability of the connection price. This was due to the generally poor financial standing of the municipalities and the conditions for funding by banks, which were considered stringent. The broadband projects started best in municipalities where state aid covered the greatest proportion of project expenditure. These municipalities benefited from the projects through their employment impacts,

and also abolishment of regional quotas through an amendment to the Act on Broadband Construction Aid in Sparsely Populated Areas (594/2012) that abolished regional quotas. The idea of co-funding share classification came up in the context of legislative drafting with the aim to reduce the co-funding shares of certain municipalities with poor financial standing; it was not included in the original proposal of the rapporteur appointed to study the feasibility of the project.

### Tight framework for project implementation

The granting of state aid from two sources, together with meagre resources and a tight schedule for project implementation, led into a decision to divide the national project into two parts. One part of the project was administrated by the Finnish Communications Regulatory Authority, while the other was administrated by the Agency for Rural Affairs. As a result there were overlaps and incoherence in the activities of the authorities. The tight framework in the nationwide project implementation also encouraged the authorities to resort to old practices. The traditional state aid system was used in a sector where state aids are almost unknown. The beneficiaries regarded the project administration as bureaucratic and were dissatisfied with it.

The authorisations granted in the Budget for broadband network building could not be used totally by the end of 2015. By the end of 2014, almost all of the funds available from the European Agricultural Fund for Rural Development had been granted to projects, while the level of aid granted from national funds remained at some 70%.

### Project reporting lacked integrative and analytical perspective

The Government's annual reports do not provide an adequate big picture of the Broadband for all project implementation. The project is inter-administrative in nature, underlining the need for an integrative assessment of its progress. The annual reports mainly highlight successes, mostly those achieved by the Finnish Communications Regulatory Authority, without an analysis of the results explaining the progress as a whole. Problems in projects have been brought up in the reports of the two mid-term evaluations of the Broadband for all project (2011 and 2013), conducted separately from the annual reporting.

### There are financial risks that need attention

In a number of municipalities, the funding share classification and its fixed nature, as well as the stringent eligibility rules among other things contributed to significant financial risk-taking considering the economic resources of the municipalities. If the risks are realised, it would have negative impacts on citizens who were supposed to be beneficiaries of the Broadband for all project. The telecommunications operators set up as new enterprises after the entry into force of the Broadband Act have on average a greater continuity risk than other operators.

### Recommendation of the National Audit Office

The National Audit Office recommends that the Ministry of Transport and Communications monitors whether unreasonable financial losses and liabilities have been incurred parties for whom they were not originally intended.