

Senate Standing Committee on Environment and Communications

Answers to Senate Estimates Questions on Notice

Additional Estimates Hearings February 2014

Communications Portfolio

Department of Communications

Question No: 64

Program No. 1.1

Hansard Ref: In Writing

Topic: Independent cost-benefit analysis and review of regulation

Senator Urquhart asked:

The Terms of Reference of the *Independent cost-benefit analysis and review of regulation* were released on 12 December. The overall purpose of the review is to:

“analyse the economic and social costs and benefits (including both direct and indirect effects) arising from the availability of broadband of differing properties via various technologies”

The terms of reference then specify four aspects that are to be reported on, of which only the first refers to benefits.

- a. Does this reference only refer to benefits and not costs?
- b. The reporting requirement on benefits uses different language to the description of the purpose, it requires the review to identify the “direct and indirect value, in economic and social terms, of increased broadband speeds”. What is the difference between “direct and indirect value” and the difference between “economic and social terms”?
- c. The review is required to consider the “benefits of alternative /potential technologies.” Is the “Panel of Experts” constrained in terms of what alternative or potential technologies it considers, or is it specifically required to look at the technologies laid out in the Strategic Review?
- d. The review is required to consider the extent to which market pricing mechanisms can capture the value of benefits. Is this a reference to the extent to which the NBN Co revenue can be considered as a proxy for the benefits?
- e. If that is the intention, is the Panel asked to review the revenue estimates included in the Strategic Review to consider whether these revenue estimates accurately reflect the assumptions about the future benefits?
- f. The Terms of Reference don’t refer to either the direct costs of the NBN or any wider social costs of the NBN. Is the Independent review is required to rely upon the costs provided by the NBN Co Strategic Review and that there are no social costs?

Answer:

- a. As noted in the first paragraph of the terms of reference, the cost-benefit analysis is to analyse both benefits and costs of NBN options.
- b. In the terms of reference, the purpose of the review and first reporting requirement are both conveying that the cost-benefit analysis should examine all costs and benefits arising from the availability of broadband of differing properties. The terms used are standard economic/accounting terms:
 1. direct is referring to benefits that have a direct link to changes in broadband, indirect is benefits where the link is less tangible.
 2. economic terms refers to activities that directly impact on the economy (eg incomes, prices) and social terms are more community oriented benefits (eg reduced travel time leading to better home/life balance)

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- c. The terms of reference do not constrain the panel in considering alternative/potential technologies.
- d. This is simply asking whether market pricing mechanisms capture the full value of benefits of increased broadband speeds, including those that may accrue to governments. There are many examples in economics of benefits differing from prices (eg for reasons of externalities).
- e. The panel is adopting a rigorous process to estimate and verify all values in its cost-benefit analysis.
- f. The terms of reference refer to economic and social costs in the first paragraph. The terms of reference do not constrain the review's sources of information but note the information flowing from the Strategic Review should be considered as an input.