

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: 65

Program No. 1.1

Hansard Ref: In Writing

Topic: Independent cost-benefit analysis and review of regulation

Senator Urquhart asked:

In reference to Independent cost-benefit analysis and review of regulation

- a. Is a review controlled by the Department typically understood to be an “independent” review irrespective of whether external experts are involved?
- b. How will this independent review be conducted compared to how the Independent Review of regional communications is periodically conducted?
- c. What is generally meant by the phrase “cost benefit analysis”?
- d. Will the Expert Panel be required to conduct a full cost benefit analysis consistent with the Department of Finance handbook of Cost-Benefit Analysis published in January 2006?
- e. A critical parameter for a Cost-Benefit Analysis is the cost of capital, or discount rate, to be used to compare a sequence of future costs and benefits. Has the Panel of Experts been provided with any guidance on what discount rate it should use were it to indeed actually to a Cost-Benefit Analysis?
- f. When Cost-Benefit Analysis is use to compare alternatives – such as building “Fibre to the Premises in one stage versus two- there are four alternative measures that can be used. These are the Net Present Value, the Benefit-cost Ratio, the Internal Rate of Return and the Payback Period (see page 13 of the Handbook). Has the Panel of Experts been provided with any guidance on which methods to use in this analysis?

Answer:

- a. The independent cost-benefit analysis is being conducted by a panel of people external to the Department of Communications who bring decades of relevant experience in telecommunications, regulation, competition policy, economics, public policy and digital business. The Department is providing support to the panel.
- b. The independent cost-benefit analysis and review of regulation arrangements for the national broadband network is conducted by a panel under specific terms of reference given to it by the Government. The panel is deciding how the review is conducted. The panel will provide a report to Government within six months.

The Regional Telecommunications Independent Review Committee is established under the *Telecommunications (Consumer Protection and Service Standards) Act 1999* (the Act) to review telecommunications services in regional, rural and remote parts of Australia every three years.

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- c. A cost–benefit analysis is a common economic analysis: it is a systematic process for calculating and comparing benefits and costs of a project, decision or government policy.
- d-f. The panel’s terms of reference ask it to undertake a cost-benefit analysis. The panel is developing and refining a comprehensive methodology or analytical framework for its cost-benefit analysis. The panel plans to release this document when it is complete and it will provide details about techniques and assumptions and how they will be used in the analysis. The cost-benefit analysis will have regard to the Department of Finance’s handbook.