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Labor's NBN: too extravagant? Lukas Coch/AAP

NBN cost-benefit analysis signals the end of an era

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The long-awaited cost-benefit analysis of the National Broadband Network suggests the days of politicians shooting from the hip with taxpayer dollars are numbered.

As Labor's NBN unfolds amid reviews and revelations, it's apparent the NBN was a political move based on romantic notions of policy-making ending in Labor's electoral defeat in 2013.

In government, the Coalition called for a strategic review of the NBN, revealing a number of problems with the project's implementation. Malcolm Turnbull also promised to deliver an independent cost-benefit analysis of the economic and social costs and benefits of the NBN.

The cost-benefit analysis (of the NBN as it is now, not the analysis that should have been provided back in 2007) reveals the multi-technology mix (MTM) model will provide the most bang for the taxpayer's buck. In the absence of evidence to the contrary, the analysis also shows Labor's NBN would have been nothing short of extravagant.

But the panel of experts who conducted the cost-benefit analysis are not alone in pointing out the shortcomings of Labor's romantic ideas about deploying infrastructure.

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A recent Productivity Commission report on public infrastructure criticised the NBN for its investment in infrastructure without the use of a cost-benefit analysis. Further, NBN Co's failure to achieve key targets suggests a lack of detailed analysis in the original proposal.

Even the authors of Labor's implementation study were at pains to make it clear the study did not "undertake a cost benefit analysis of the macroeconomic and social benefits that would result from the implementation of a superfast broadband network".

But what about the legacy of Kevin07 and the NBN?

Broadband since Kevin07

The promise of faster broadband played a major role in the 2007 election. The Coalition was caught on the back foot with Australia at the wrong end of the high-speed broadband stakes. Rudd's promise to deliver ubiquitous fast broadband was clearly a political winner at the time.

An implementation study was conducted to find the best way to meet the government's policy specifications. A "Rolls-Royce" fibre-to-the-home (FTTH) model was selected as a clear technological winner. In the absence of a cost-benefit analysis, Labor over-confidently decided the NBN should be taxpayer funded and wholly government-owned.

But by the time of the 2013 federal election, the NBN was behind schedule and the costs were mounting. And despite several years of intense policy focus, Australia had not caught up with the rest of the world in access to (Figure 1) or speed of (Figure 2) broadband services.

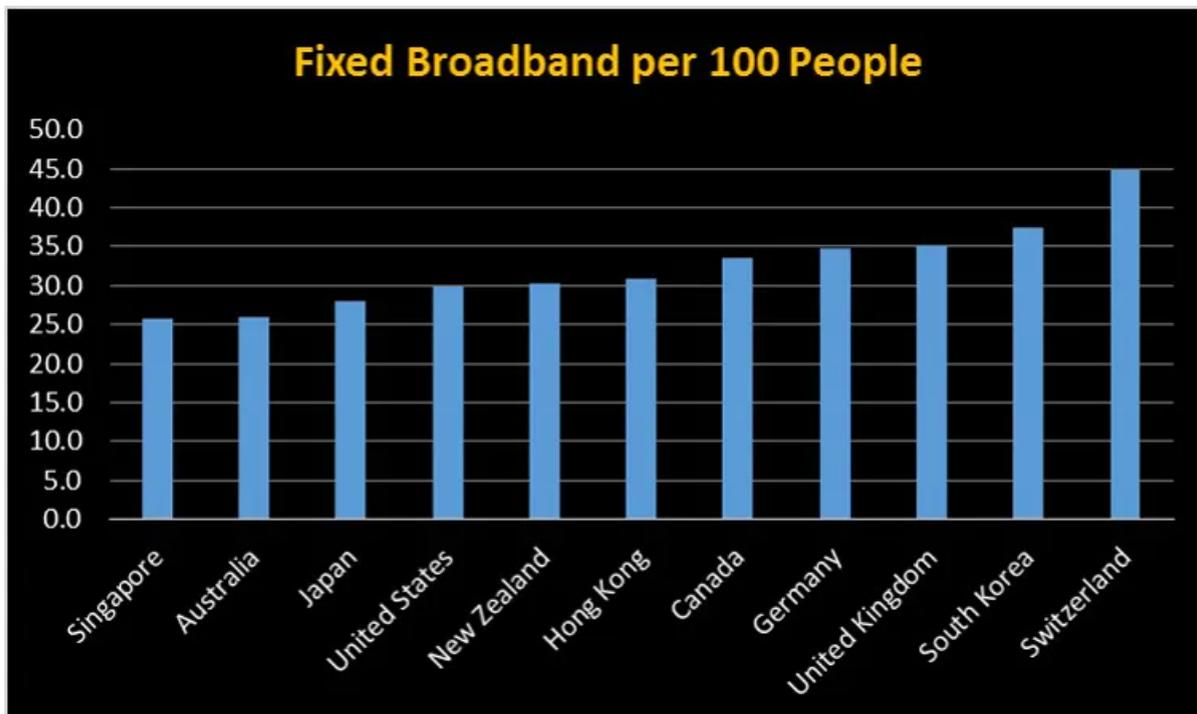


Figure 1: Fixed-line access per 100 people (Source: OECD, December 2013)

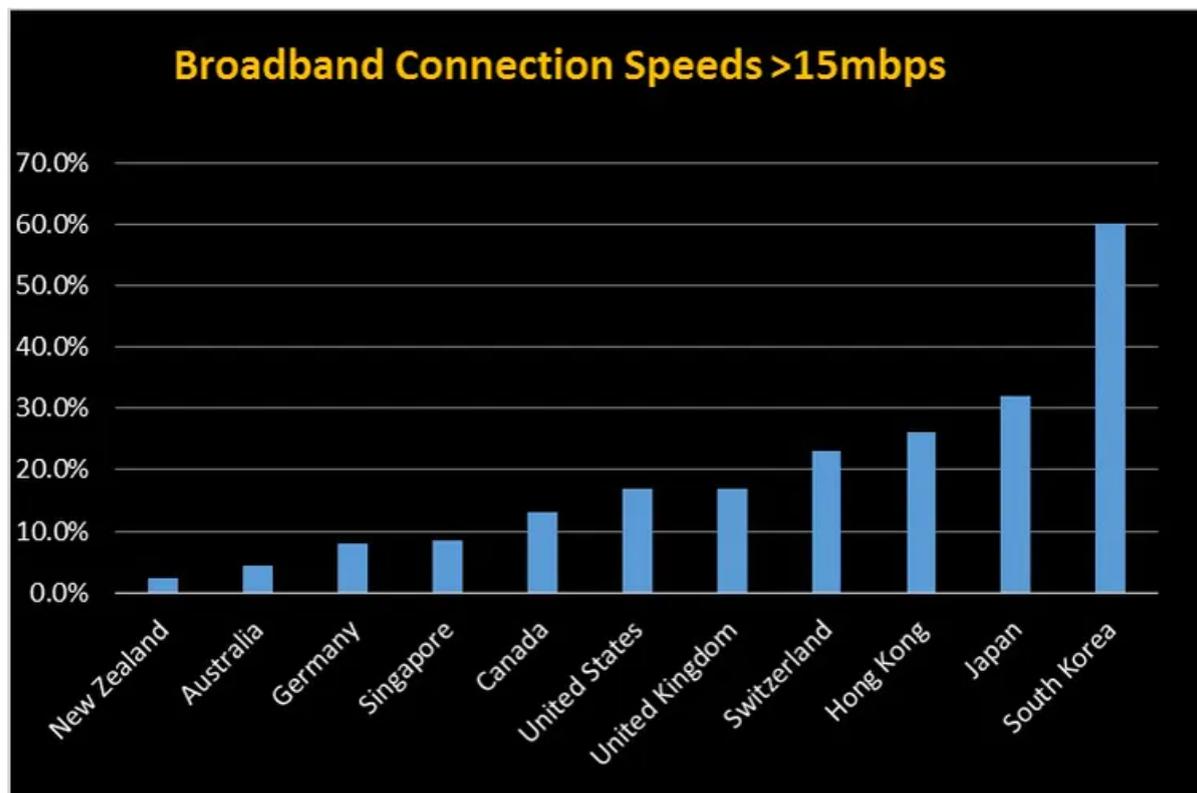


Figure 2: Broadband connection speeds of more than 15 mbps, (Source: Akamai, Q1 2014)

The move to NBN (lite)

What emerged from Communications Minister Malcolm Turnbull's promise of a strategic review of the NBN became known as NBN (lite). Instead of FTTH, a fibre-to-the-node (FTTN) network would utilise the multi-technology model to provide consumers with fast broadband (at speeds somewhat slower than Labor's NBN), but sooner.

The NBN cost-benefit analysis looked at three different scenarios for government action. Each scenario was tested against the net benefits of a base scenario of no further rollout of the NBN, which would result in a net cost of A\$24 billion, as follows:

1. Unsubsidised rollout of NBN. This would provide taxpayers with a net benefit of A\$24 billion by avoiding the costs associated with no further rollout.
2. Adopt the MTM model. This would provide a net cost of A\$6 billion relative to the first scenario.
3. Adopt a FTTP model. This would provide a net cost of A\$22 billion relative to the first scenario.

A key finding of the cost-benefit analysis is that delivering broadband services sooner rather than later means benefits accrue while the rollout occurs. Assuming the network is upgraded at some later stage, the benefits continue to accrue while the network is developed. Yet the net benefits of the more expensive FTTH model are less likely to be realised and more likely to decline over time.

Countries such as Canada and the United States have MTM broadband networks and the figures indicate the approach is working. But what rarely appears in the debate about broadband in Australia is a simple fact: some broadband is better than no broadband.

The NBN cost-benefit analysis is long overdue. Although the net cost of the MTM model is some A\$6 billion, most of this cost is to serve rural and remote regions with satellite and wireless services in place of fibre.

Taxpayers expect that government will support the bush, and A\$6 billion in net costs is hardly a bitter pill to swallow. But taxpayers may well change their tune when ultimately they fund a net cost of A\$22 billion for a FTTH model, which in most places won't be operational for years to come.

Labor's NBN was a big idea. But without a cost-benefit analysis, it was a reckless use of taxpayer funds made by politicians with no idea. Given the recent findings about how NBN was conceived and implemented, it would take a particularly brave (or foolhardy) politician to ever again implement infrastructure policy on the basis of romantic ideas of what can and cannot be achieved in politics.

While some may lament the end of Labor's NBN, the cost-benefit analysis reveals the shortcomings of its romanticism. Economics may not be all that romantic, but taxpayers may well be glad the NBN romance is over.



National Broadband Network