

The National Broadband Network Policy: Inefficient, Expensive and Untested

On the 21st of March, 2007, Kevin Rudd launched his election bid to become Prime Minister of Australia with a \$4.7 billion National Broadband Network (NBN) policy anchoring his election platform. Some eight months later, on the 24th of November, 2007, Kevin Rudd became Prime Minister and his national broadband policy went from election promise to Government policy (O'Brien, 2007). By April 2009, the construction tender of the \$4.7 billion NBN had failed and a new \$43 billion NBN policy was chosen to take its place (LeMay, 2009) (Australian Politics.com, 2011). Now lauded as the 'largest infrastructure project in Australia's history' (EXA, 2011), the new NBN policy has drawn a lot of attention regarding its efficiency in maximising public welfare while simultaneously being draped in a menagerie of symbolism, numbers and heavy handed policy instruments by the Government. Based upon an often publicly convoluted and opaque policy process, the public are likely left wondering what policy processes the NBN is actually being subjected to and which it is not. In this essay, questions particular to the efficiency goals of the NBN policy will be examined around a rational decision making policy framework and supported by strong empirical evidence regarding policy efficiency testing and instrument application. Through this process it will be shown that the new NBN policy has not followed rational policy theory, has not been tested for its efficiency goal, is in contradiction to the Government's own financial policy and is obviously not the best alternative, as is indicated by the liberal application of anti-competitive policy instruments by the Government to prevent policy failure.

FRAMEWORK: THE RATIONAL THEORY DECISION MAKING PROCESS

To examine any public policy, a theoretical framework needs to be constructed to orient and direct the flow of investigation. The rational decision making process offers an excellent system for selecting the best alternative for any given policy, and is used regularly by governments. Stone (2002, p232) describes the rational decision making process as the "hallmark of contemporary policy analysis" where rationality allows political actors to simply choose the best alternative to achieve a desired goal, overcoming more traditional methods such as "habit, social custom, impulse" or intuition for example. Quade (1982, p48) lists five steps in the rational decision making process used to ensure the selection of the best alternative for any given policy:

1. "Formulation": where policy objectives and problems are identified;
2. "Search": the examination and creation of plausible policy alternatives;
3. "Forecasting": whereby attempts to "predict... future environment or operational context(s) are established";
4. "Modelling": the creation of alternative models to determine impacts; and
5. "Evaluation": where the alternatives are then compared and ranked.

If the five steps of the decision making process as outlined above are followed, then the best alternative for any policy should be successfully selected and implemented. Stone (2002, p37, p234) states that all decision making processes are derived from one overriding social need, "maximum total welfare", based off five distinct policy goals: "equity, efficiency, security, liberty and community". Of particular concern in this essay are the efficiency goals of the NBN policy. Efficiency, according to Stone (2002, p61), is the maximising of the ratio between costs and benefits of a given policy, resulting in the most "efficient allocation of resources" and the subsequent yielding of "the most total value for society from existing resources". Two 'efficient' decision tools commonly used in the rational decision making process "are cost-benefit analysis (CBA) and risk-benefit analysis (RBA)" (Stone, 2002, p233). Of particular interest is CBA, which defines the costs and benefits of a project and those of its alternatives, seeking the best benefit solution where benefits outstrip costs (BusinessDictionary.com, 2011). Based on this definition, CBA is a test for policy efficiency and represents steps 2 to 4 of Quade's rational decision making process and can be applied to the NBN policy as a proxy for these functions, capable of measuring whether the welfare of society is being maximised. The NBN is a massively expensive policy and Dobes and Bennet (2009, p7) believe that "a lack of rigorous assessment of proposals can only result in decisions that reduce the well-being of all Australians".

GOVERNMENT POLICY ON EFFICIENCY

The Australian Government is a significant proponent of CBA. The Department of Finance and Deregulation (2011) state that all government policies should increase total social welfare and advocate the use of CBA and Risk Impact Statements (RIS) to provide for best possible policy outcomes. This approach was also clearly vocalised in the Australian 2008-2009 Budget Paper No.1, which clearly stated that:

"Where governments invest in infrastructure assets, it is essential that they seek to achieve maximum economic and social benefits, determined through rigorous cost-benefit analysis including ex post evaluation and review".

This point of view was also echoed by the 2009 Secretary to Treasury, Dr Ken Henry, in a conference address where he asserted that "Government spending that does not pass an

appropriately defined cost-benefit test necessarily detracts from Australia's wellbeing (Ergas & Robson, 2009, p2). Undoubtedly, government departments and advisors believe that CBA is a major decision making tool that should be used in policy decisions being conducted by the Government.

GOVERNMENT FAILURE TO APPLY EFFICIENCY AND RATIONALITY ON NBN POLICY

The original NBN policy espoused by the Government was a \$4.7 billion government project to be contracted out to private companies. This policy failed when the Government's tender collapsed in April, 2009, after the Government received independent advice stating that none of the proposals tendered provided "value for money" (Turner, 2009). Following this collapse, the Government subsequently announced a new and more powerful \$43 billion NBN policy which conferred all risk onto the Australian Government (Robb, 2010).

Following the implementation of the new NBN policy, various political actors, including the Opposition Communication Spokesman, Malcom Turnbull, have requested a cost-benefit analysis (AAP, 2010). A table of some of Malcom Turnbull's many CBA requests can be seen in table 1 on the following page. In October of 2010, Communications Minister, Stephen Conroy, described an NBN cost-benefit analysis on the new NBN policy as a process that "would waste time and money" (AAP, 2010). Claims made by Senator Conroy indicate that cost-benefit analysis of the NBN produced by the ACCC and the McKinsey Report had already been released, going on to state that "cost-benefit analyses had been carried out into broadband networks all over the world and all had been overwhelmingly positive (AAP, 2010).

The Communication Minister's 'CBAs' and commentary provide insight into what is not actually CBA but persuasive, logical language being used by the Government to help lubricate the policy process. The ACCC CBA is only a CBA in name, with no in-depth data, no real numbers of costs and benefits, no alternatives or any overall dollar figures to verify the overall cost-benefit of the NBN (Neumann, 2010). The series of graphs and statements appear logical, but are not derivative of Quade's rational decision making process in any way or form. Similarly, the McKinsey Report, produced by McKinsey-KPMG is not a cost-benefit analysis, but instead a "report (that) explicitly says it does not evaluate the Government's policy objectives - rather takes them as a given and suggests the best way to achieve them" (Financial Review, 2010).

Conroy further supports the validity of the NBN policy through internal studies performed by NBN Co itself (AAP, 2010). Notably, in the Government's NBN Implementation Study released

Table 2: A table of stories published online documenting the requests of Opposition Communication Spokesman, Malcom Turnbull, for a CBA of the NBN policy by the Federal Government.

Malcom Turnbull		
Date of CBA Request	CBA Request Story Title	Source Link
2009, May 7	Turnbull slams 'dangerous NBN delusion'	http://www.zdnet.com.au/turnbull-slams-dangerous-nbn-delusion-339296322.htm
2010, Sept 24	Significant Risks of NBN Acknowledged by Treasury	http://www.malcolmturnbull.com.au/blogs/malcolms-blog/significant-risks-of-nbn-acknowledged-by-treasury/
2010, Oct 6	NBN cost-benefit analysis is essential	http://www.zdnet.com.au/nbn-cost-benefit-analysis-is-essential-339306421.htm
2010, Oct 27	Independents open to scrutiny of NBN	http://www.theaustralian.com.au/national-affairs/independents-open-to-scrutiny-of-nbn/story-fn59niix-1225943952181
2010, Nov 14	OECD critical of NBN Monopoly and Calls for Rigorous Analysis of \$43 Billion Project	http://www.malcolmturnbull.com.au/blogs/oecd-critical-of-nbn-monopoly-and-calls-for-rigorous-analysis-of-43billion-project/
2010, Nov 26	Reserve Bank Governor Calls for Cost Benefit Analysis into NBN	http://www.malcolmturnbull.com.au/blogs/reserve-bank-governor-calls-for-cost-benefit-analysis-into-nbn/
2011, Feb 15	Conroy pays to avoid cost benefit analysis: Turnbull	http://www.computerworld.com.au/article/376714/conroy_pays_avoid_cost_benefit_analysis_turnbull/
2011, June 17	NBN may be subjected to a partial cost-benefit analysis	http://www.arnnet.com.au/article/390543/nbn_may_subjected_partial_cost-benefit_analysis/

by the Department of Broadband, Communications and the Digital Economy (2010), it explains that the Government expected the ACCC and NBN Co to “independently evaluate the nature of commercial risks and reach their own conclusions”. This does not appear to include the searching (examination and creation of plausible policy alternatives), modelling (creation of

alternative models to determine impacts) or evaluation (where the alternatives are then compared and ranked) steps from Quade's rational decision making list, which a CBA is completely capable of achieving. Rather, any business model produced by NBN Co will only test the validity of the business model, not whether the policy is maximising welfare or the best alternative. Once again, this sort of analysis performed by NBN Co on itself ignores the Government's own official efficiency statements and demonstrates a complete lack of policy process.

POLICY INSTRUMENTS APPLIED TO OVERCOME INEFFICIENCY ISSUES

The lack of strong business model, let alone efficiency, is further traceable in two treasury documents and various rules and inducements that have been applied to players in the Internet Service Provider (ISP) market. In May 2009, Treasury Document 6 on the NBN "Issues & Risk" analysis report states:

"Considerable financial risks to the Commonwealth remain, including uncertainty including over the likely extent of private sector involvement."

In Treasury Document 34, released a year later, the NBN "Issues & Risk" analysis report states:

"Financial risks for the Commonwealth remain, in particular due to uncertainty regarding a deal with Telstra and likely take-up of the NBN Co's services."

These two documents provide startling insight into the NBN policy, showing an obvious level of concern about inherent risk in the policy from treasury. In response to treasury's concern of the NBN's financial risk, or viability, it appears that the Government has applied heavy rules and inducements onto the two largest ISPs in the market: Optus and Telstra. As can be seen in table 2 over the page, the Government is almost complete in coercing the nation's two major internet infrastructure owners to give up their networks and migrate onto the NBN network. Optus has entered a contract with NBN and Telstra shareholders have approved an \$11 billion deal, soon making NBN Co the only cabled network wholesaler in Australia (Gedda, 2011). The Government has also been examining the establishment of a new law that would essentially prevent companies from building or operating any networks in direct competition to NBN Co (Crozier, 2010). While in negotiations to surrender its copper network, Telstra poignantly stated that the introduction of the proposed law would "limit future competition and innovation – the very benefits the NBN is supposed to achieve" (Hepworth & Wilson, 2011). Currently, both contracts will remove any competing infrastructure from NBN Co's path, effectively making NBN Co an internet wholesale monopoly, and is a policy solution designed to prevent

failure. The need to block out competition is a very strong indicator of policy inefficiency and failure to engender a rational decision making process such as CBA.

Table 2: Table of rules and inducements the Australian Government is applying around the NBN policy to prevent policy collapse.

Instrument type	Instrument Description	Information Source
Reward	1. Optus paid \$800 million to migrate to NBN	(Reidy, 2011) http://www.channelnews.com.au/Business/R7S9M3U7?page=1
Rule	1. Optus contract agreement for 15 years: no marketing of wireless internet network against NBN 2. Optus must shutdown competing hybrid fibre network	(Reidy, 2011) http://www.channelnews.com.au/Business/R7S9M3U7?page=2
Reward	1. Telstra shareholders agree to \$11 billion contract to migrate to NBN over next 10 years	(Taylor, 2011) http://m.zdnet.com.au/telstra-shareholders-give-nbn-deal-a-tick-339324488.htm
Rule	1. Telstra must eventually shutdown competing copper network 2. Telstra must provide immediate access to copper infrastructure, notably pits and pipes to support NBN rollout 3. Telstra may possibly be unable to advertise its wireless network against NBN Co	(GovernmentNews.com.au, 2011) http://www.governmentnews.com.au/2011/06/23/article/Telstra-and-Optus-get-in-on-NBN-action/YMZHXSXW (LeMay, 2011) http://delimiter.com.au/2011/08/30/wireless-nbn-clause-could-harm-competition-acc/
Reward	1. Other Companies offered \$3000 rebate upon migrating to NBN 2. Other Companies fees waived by NBN until connection “critical mass” achieved	(Bingemann, 2011) http://www.theaustralian.com.au/australian-it/backlash-forces-nbn-rebates/story-e6frgakx-1226111965800

CONCLUSION

The current NBN policy is hugely expensive at \$43 billion, and its entire financial risk is being borne by the Federal Government without adherence to any real CBA or rational decision making processes, such as searching for alternatives, modelling of alternative model impacts or comparing and ranking of alternatives. Importantly, the Department of Finance and Deregulation, the authors of Australian 2008-09 Budget Paper No 1, and the well respected Ken Henry officially state CBA as an important and publicly responsible policy process. Set against this, are a series of logical and persuasive arguments from Senator Conroy that look like CBA, but are not. Treasury documents show concerns regarding the viability of the NBN policy, and inducements and rules are being applied to create various anti-competitive barriers to enable the success of the NBN policy while simultaneously creating a government owned monopoly. The NBN policy is inefficient, expensive and untested and may quite possibly fail, just as its \$4.7 billion sibling did.

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