

Senate Standing Committee on Environment and Communications

Answers to Senate Estimates Questions on Notice

Budget Estimates Hearings May 2014

Communications Portfolio

Department of Communications

Question No: 546

Program No. 1.1

Hansard Ref: In Writing

Topic: Independent cost-benefit analysis and review of regulation

Senator Urquhart asked:

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

- a. The Centre for International Economics report Economic Benefits and Costs of the Proposed Basin Plan states “Despite a vast literature on this subject, there is no general agreement on the appropriate discount rate to use.” The report used “a real discount rate of 7 per cent.” What is a real discount rate of 7 per cent as a nominal discount rate? Is this an example of a comparable analysis to the NBN CBA??

Answer:

- (a) A real discount rate is transformed into a nominal discount rate by adding the rate of inflation onto the real discount rate.

The panel’s ‘Cost-Benefit Analysis of Public Investment in High Speed Broadband Network Infrastructure: An Analytical Framework’ agrees with the Centre for International Economics report quoted by Senator Urquhart, indicating on page 61 “it is important to note that there is little professional consensus among economists regarding the appropriate choice of discount rate.” The analytical framework goes on to indicate on page 62 that “the most appropriate way to proceed in a CBA is to use a range of discount rates, and to conduct sensitivity analysis” and that “for example, one straightforward approach would be to use the three rates recommended by Infrastructure Australia (4, 7 and 10 percent)”.