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Labor's strategy over the NBN must be harpooned

HENRY ERGAS THE AUSTRALIAN NOVEMBER 09, 2015 12:00AM

“People died last time you were in charge”, senator Stephen Conroy, mad-eyed as Ahab and trembling with fury, barked at Bill Morrow, the chief executive of NBN Co, when Morrow, at a parliamentary committee late last month, questioned Conroy’s assertions about the company’s performance.

Little matter that while Labor’s home-insulation scheme, which Conroy loudly supported, had been found to have caused entirely unnecessary deaths, no such finding had ever been made against Morrow; and little matter that both common decency and parliamentary rules require committee witnesses to be treated with respect.

Rather, as with the quest by the deranged captain of the Pequod in Moby-Dick to avenge himself on the great white whale that had shattered his leg and destroyed his manhood, all that mattered was Conroy’s rage at the “multi-technology model” which has resulted from Malcolm Turnbull’s restructuring of the National Broadband Network, terminating Conroy’s utopian vision of an all-fibre network. And that vendetta, it turns out, is not Conroy’s alone. Emerging from the shadows like Fedallah, the mysterious soothsayer and fire-worshipper who is Ahab’s personal harpooner and secret confidant, Mike Quigley last week launched his own attack on the strategy NBN Co has pursued since the 2013 election.

According to NBN Co’s former chief executive, the recently released corporate plan shows that strategy has caused a staggering \$15 billion blowout in costs.

Nor could the problems be blamed on previous NBN Co management; instead, they reflected “Malcolm Turnbull’s myths” about the costs of Labor’s all-fibre fixed network, along with Turnbull’s “persistently overoptimistic assumptions about the true costs and timescale for deploying the newly introduced MTM technologies”.

Now, even those of a forgiving disposition might think Quigley poorly placed to criticise others for failing to meet targets. By the time he left NBN Co, the company’s revenues were 91 per cent short of the 2011-13 corporate plan’s objective while the number of premises to which fibre was effectively available was 89 per cent below the level that plan promised.

There was, however, one target Quigley comfortably exceeded: operating expenses, which, calculated net of payments to Telstra and Optus, were running at twice the levels the plan envisaged.

In a lesser soul, such a performance might induce a degree of reticence; so might the fact that as a change of government approached, Quigley himself advised the department that a multi-technology strategy “has the potential to largely resolve the issues” plaguing the network’s deployment.

None of that, however, seems to trouble him; nor does he seem to believe the accusations that he hurls need to be carefully based on the data. Quigley’s claims of a massive increase in the

network's peak funding requirement since the 2013-14 Strategic Review are a case in point.

In reality, the 2015-18 corporate plan, finally recognising the uncertainties involved in projecting the network's performance, presents a range for that funding that goes from \$46bn to \$56bn, with \$49bn being the most likely outcome.

That implies that, compared to the Coalition-initiated strategic review in early 2014, the NBN's costs have indeed climbed, but by less than half the headline-grabbing \$15bn Quigley spent last week publicising.

Quigley's contentions about the costs of alternative access technologies are no less sloppy.

Misunderstanding how fibre costs were calculated in successive reviews, he wrongly states fibre-to-the-premises costs are now lower than the strategic review thought; and asserts that the new corporate plan's estimates of fibre costs are only "slightly higher than NBN Co's internal costings in 2013".

According to Quigley, those costings disprove Turnbull's claim at the 2013 election that Labor and NBN Co had concealed the true cost of an all-fibre network.

But if those estimates existed internally, they were never disclosed to taxpayers, for reasons all too readily understood: compared to NBN Co's ambitious 2012-15 corporate plan, which Quigley and Conroy clung to long after it became obvious it was pure fiction, they implied a 25 per cent blowout in expenses — a mere trifle to great visionaries, perhaps, but enough to cause ordinary mortals some concern, particularly if they are taxpayers.

Turnbull was, in other words, absolutely right: far from the "full transparency" Labor promised, crucial information was being suppressed.

Unfortunately, that is hardly news. After all, who could forget the miracle of accounting prestidigitiation that transformed contracts providing total payments to Telstra of more than \$100bn between 2011 and 2067 into what Conroy claimed was a deal that would cost taxpayers "only" \$11bn?

Thanks to that sleight of hand, the largest financial obligation the commonwealth has ever entered into was disclosed to Australian taxpayers not in terms of the total cash payments for which they were responsible, as every previous such obligation had been; instead, Labor revealed only the net present value of those payments after tax in the hands of the beneficiary, where that present value was minimised by using an indefensibly high interest rate.

Those days of accounting alchemy may be behind us; but the commitments Labor entered into will burden NBN Co, taxpayers and consumers for generations. And it would be foolish to suggest all is well with the NBN.

On the contrary, deployment costs per premise are about twice world's-best practice, and are not declining as had been expected; as a government-owned monopolist, NBN Co has weak incentives to lift efficiency; despite vast improvements in its management, its mandate greatly exceeds what it can realistically deliver; and the financial risks of the project for taxpayers remain unacceptably high.

But returning — as Labor advocates — to the strategy that foundered so spectacularly under

Conroy and Quigley would merely aggravate those problems.

Having gotten us into this predicament, it is hardly the madness of Ahab or the fanaticism of Fedallah that can prevent the shipwreck which, like the destruction of the Pequod, still looms so menacingly ahead.