



# THE FUTURE OF REGULATION STUDY - CALL FOR EVIDENCE

## Written evidence to the National Infrastructure Commission

Response by London First, Middlesex House, 34-42 Cleveland Street, London W1T 4JE

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Contact: Daniel Mahoney; [dmahoney@londonfirst.co.uk](mailto:dmahoney@londonfirst.co.uk); 07506 291 252

**This response mostly correlates to Questions 1a&c, 2, 13**

[See Annex]

### Overview

Over the coming decades the UK's infrastructure will need to contend with a number of issues. The UK's population is projected to pass 70 million by mid-2029<sup>1</sup>; ageing infrastructure across energy and water networks will need to be replaced; the UK will face growing risks from climate change; and new technologies such as full fibre networks will need to be deployed in under 15 years. Keeping consumer bills down, while at the same time addressing these challenges, will be critical if the UK is to maximise its economic potential.

In terms of London, regulatory regimes need to take better account of the unique circumstances associated with the capital. London will likely need to attract higher levels of investment, or overcome bigger challenges, compared to some other parts of the country (though other dense metro areas will likely face similar challenges). This highlights the limits of a one-size fits all regulatory regime. With respect to the energy, water and digital sectors in London, regulators will need to consider a variety of factors. These include:

- The growth in London's population and housing stock will present particular challenges in planning future infrastructure. Projections suggest that the capital's economic growth will outpace other UK regions in the future<sup>2</sup>;

<sup>1</sup> Office for National Statistics, National Population Projections: 2016-based statistical bulletin, October 2017

<sup>2</sup> EY, UK Regional Economic Forecast – Rebalancing the economy: a complex challenge, Winter 2018-19



- London is facing a 20% increase in the risk of drought and a 17% increase in the risk of flooding by 2050, which are the greatest projected increases across any region in the UK<sup>3</sup>;
- Electric vehicles are already connecting across UK Power Networks' electricity distribution network faster than anywhere else in the UK<sup>4</sup>, with the demand on energy networks set to increase dramatically over the coming decades;
- The additional expense London faces in maintaining and replacing ageing and crowded infrastructure networks below its congested and difficult to access streets; and
- London's fragmented borough system and often complicated property ownership structures, which pose specific planning-related challenges for the rollout of digital infrastructure.

Digital infrastructure is increasingly critical to people's daily lives, but its regulatory system is considerably different to those governing the energy and water sectors. We have therefore split our response to this consultation accordingly.

## Energy and Water Sectors

London's businesses seek a system of regulation that will promote the necessary investment to ensure secure energy networks and water infrastructure. From a high-level perspective, it is therefore concerning that the UK's reputation for reliable and stable regulatory systems is seemingly at risk – not just from the threat posed by prospective re-nationalisation but, most immediately, from the political pressures placed on regulators to prioritise lower bills above all else. In the water sector, for example, Moody's recently concluded that there is 'continuing regulatory, political and public pressure on the industry<sup>5</sup>' – and there is a concern that these kinds of pressures could spread to the energy networks sector.

Alongside dealing with these overarching risks, London First advocate a regulatory regime that further incentivises water and energy network companies to future-proof London's infrastructure. Consumers need to be confident that there is relentless efficiency pressure on utilities to strip out unnecessary costs. However, this must not come at the expense of consumers' long-term needs, which will be met by long-term investment. Underinvestment in utilities could end up eroding the resilience of water and energy networks to the serious detriment of business and London's reputation as a leading world city.

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<sup>3</sup> National Infrastructure Commission, National Infrastructure Assessment, 2018

<sup>4</sup> UK Power Networks, RII0-2 Sector Specific Methodology Consultation: Our response, 2019

<sup>5</sup> Moody's Investors Service, Moody's: UK water utilities outlook is negative as regulatory, political and public pressure mounts, December 2018



In practice, a lack of resilience would have a number of serious implications. In the energy sector, it could mean restricting London's ability to become a pioneering city for innovations such as electric cars: 60,000 vehicles are already connecting to the network operated by UK Power Networks, which accounts for 30% of the UK total<sup>6</sup>. Without adequate investment into energy networks, the growth of this sector in London could become stunted. Inadequate investment could also lead to unforeseen knock-on consequences in areas such as housing delivery. For instance, an inability to invest ahead of need in utilities infrastructure at the Vauxhall Nine Elms Battersea site led to costly retrofitting of electricity and drainage infrastructure<sup>7</sup>. Failing to plan for the long term in this way can result in new housing being delayed and sub-optimal development taking place as ad hoc decision making about site locations becomes more prevalent. London First is currently supporting the Greater London Authority (GLA) on a survey of developers and housebuilders to help build an improved evidence base relating to the problems caused by a lack of investment ahead of need in utilities infrastructure.

In the water sector, London faces the significant challenge of a rapidly growing population while also dealing with the highest increase in risk of flooding or drought. London First therefore welcome Thames Water's most recent business plan submission<sup>8</sup>, which proposes to increase operational efficiency while providing the necessary investment into London's water infrastructure.

The Chief Executive of the Environment Agency, Sir James Bevan, recently highlighted the risks that the challenges of population growth and climate change pose for the UK's water infrastructure nationally<sup>9</sup>. In response this will require, he argues, reductions in demand by reducing leakage and a greater usage of water metering. He also states that the UK will need to increase supply through water transfers and, more controversially, new reservoirs such as the proposed new reservoir at Abingdon in the South East. Such measures will be good value for money. Using emergency options such as relying on road and ship tankers over the next 30 years across the UK would cost a predicted £40bn, which compares to just £21bn associated with building resilience over the same time period<sup>10</sup>. London First strongly support the principle of growth and resilience being given stronger emphasis within price reviews for the energy network and water sectors – alongside lower bills. In developing and agreeing their plans, regulators should also take greater account of the forward plans of statutory bodies like the GLA on the likely scale and location of future growth.

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<sup>6</sup> UKPN, RIIO-2 Sector Specific Methodology Consultation: Our response, 2019

<sup>7</sup> Greater London Authority, Infrastructure & Development Coordination Business Case, April 2018

<sup>8</sup> Thames Water, Building a Better Future: Enhancing Thames Water's business plan for 2020 to 2025, April 2019

<sup>9</sup> Speech by Sir James Bevan, Escaping the jaws of death: ensuring enough water in 2050, March 2019

<sup>10</sup> National Infrastructure Commission, Preparing for a drier future: England's water infrastructure needs, 2018



## Digital Sector

Rolling out full fibre (Fibre to the Premise) and 5G across London will be vital for the capital's future competitiveness in the digital economy. Yet the UK is lagging behind many global competitors in terms of the rollout of full fibre. Spain, for example, now has 83% of all of its buildings across the country connected to full fibre<sup>11</sup>, while the current equivalent figure in the UK is now at just 5%<sup>12</sup>.

The National Infrastructure Commission (NIC) has set out a target for the UK to achieve full fibre coverage by 2033. However, without further action to enable easier deployment, the Government may struggle to achieve its ambitions in expanding fibre broadband and 5G networks in the UK and London.

There are several barriers to digital deployment across the UK. Issues include problems associated with negotiating wayleaves for access to land and obtaining permission from local authorities to conduct street works. This is causing a particular problem in the capital due to inconsistencies in regulatory regimes for rules and permits across the 32 boroughs as well as the City of London Corporation<sup>13</sup>. Moreover, often complicated building ownership structures can make it difficult to secure access agreements. These planning impediments contribute to making London an expensive place to roll out digital infrastructure<sup>14</sup>.

By way of example, evidence to the DCMS Committee shows that BT Openreach set aside up to 12 months for cases where they encounter an absent landlord and have to seek redress through the courts. BT Openreach also claim that in the City of London alone, they have been unable to connect 7,500 tenants (76% of those in scope) to ultrafast broadband due to a failure to agree a wayleave with landlords<sup>15</sup>.

In 2016 the NIC identified that engagement with local government would be a key priority in terms of delivering improved digital connections<sup>16</sup>. London First welcome subsequent efforts to promote this and reduce civil planning barriers to the deployment of digital infrastructure through measures such as the City of London's standardised wayleave, the Barrier Busting Task Force and, subsequently, the publication of the Digital Connectivity Portal. The Mayor, through the Chief Digital Officer and the GLA's Connected London Team, has taken a good step forward in promoting standardisation and sharing of best practice across London's local authorities.

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<sup>11</sup> London Assembly, Regeneration Committee: Digital Connectivity in London, June 2017

<sup>12</sup> ISP News, Ofcom finds full fibre broadband now available to 5% of UK premises, October 2018

<sup>13</sup> London First and MobileUK, Roadmap to 5G: Achieving world class digital connectivity in London, September 2018

<sup>14</sup> Ibid

<sup>15</sup> DCMS, Future Telecoms Infrastructure Review, July 2018

<sup>16</sup> National Infrastructure Commission, Connected Future, 2016



London First believe that more can be done to create a shared vision for businesses and local authorities around the opportunities for smarter management and service delivery that world-class digital infrastructure can unlock. London First is currently working with the GLA's Chief Digital Officer to convene a Working Group which will bring together Local Authorities, operators, technology providers and property interests. The group aims to report in the autumn and we would be happy to involve the NIC as appropriate.

We would also be happy to arrange a roundtable with developers, infrastructure operators, the GLA, regulators and the NIC to discuss The Future of Regulation Study (examining the energy, water and digital sectors).

## ANNEX

**Q1.** Where has the economic regulation of water, energy or telecoms systematically failed or succeeded to: a) facilitate future investment needs; c) meet the needs of both current and future consumers.

**Q2.** The National Infrastructure Assessment outlined a number of changes and challenges in infrastructure to 2050 (e.g. the move to fibre in telecoms, decarbonisation in energy and the need for long term resilience in the water sector). How might the scope, functions or activities of economic regulators need to adapt in light of future challenges?

**Q13.** Has there been a lack of clarity over strategic goals? What is the cause of this and what has been the impact on investment?

## About London First

London First is a membership group which campaigns to make London the best city in the world to do business. We convene and mobilise business leaders to tackle the key challenges facing our capital.

Our membership comprises over 200 leading employers across a wide range of sectors, supported by a small staff of policy experts and campaigners, overseen by a non-executive board of influential business leaders.