

New Build Developments: Delivering Gigabit Connections

Department for Digital, Culture, Media and Sport

RPC rating: fit for purpose

Description of proposal

The primary objective of the proposal is to deliver high-quality digital infrastructure to new build developments. Evidence suggests that a number of new homes suffer from no, or slow, connectivity. The proposals are expected to result in productivity gains and increased labour force participation from remote working, improvements to wellbeing, education and health, and a stronger economy due to the development of the infrastructure required for digital sectors to thrive. Evidence suggests that a digital divide is developing around differing connection speeds; this proposal could combat that divide.

The Department has shortlisted five policy options, one of which, in addition to the 'do nothing' option, is a non-regulatory option. The preferred option is partial fibre to the premise (FTTP) coverage for new builds under a cost cap. This option would place a dual obligation on telecoms operators and property developers to ensure that new build developments have a fibre connection directly to the premises. In the event of a failure to reach a commercial agreement on the cost of connection, the developer could oblige the operator to connect using a 'duty to connect' provision. The operator would then be obliged to quote for the connection and pay for it, up to a cost cap. If the cost cap was exceeded the developer would then be obliged to contribute, again up to the cost cap. If the developer cost cap was exceeded then the developer would be expected to identify a third funding stream, possibly with the support of a local authority or central government. The cost cap suggested in the IA is £3,000, but the Department notes that the correct level will be explored further through consultation.

Impacts of proposal

The proposals would affect developers and operators as well as central and local government. The estimated equivalent annual net direct cost to business (EANDCB) of the preferred option is £9.6 million per year, with a net present value of £13.1 million. For comparison, the net present value of the other options are: -£25.8 million for 100% FTTP coverage; -£10.2 million for 100% fibre to the cabinet (FTTC) coverage; and -£12.3 million for the connectivity certificate option. The EANDCB may need further checking as it appears to have been calculated using total cost to

business, rather than net costs. If the Department considers the benefits to business to be indirect then this should be made explicit in the impact assessment (IA).

Monetised costs

Under the preferred option the cost to upgrade the required infrastructure, over the course of the appraisal period, is estimated to be £114.9 million. This includes capital expenditure, operating expenditure, and familiarisation costs. The Department has applied an optimism bias of 44% to these figures, which is the upper bound for standard civil engineering projects as suggested in the HM Treasury Green Book guidance. For comparison, the estimated costs for the other options are: £163.2 million for 100% FTTP coverage; £17.2 million for 100% FTTC coverage; and £13.5 million for the connectivity certificate option. Connectivity certificate costs relate to the checking of broadband speeds and issuing of certificates.

Non-monetised costs

Administrative and operational costs could derive from the time taken for developers to engage with operators and the costs associated with managing the policy. These costs have not been monetised as the proposals are not expected to cause an increase in the time taken to engage, and it is expected that fines issued for non-compliance would cover operational costs around ensuring compliance.

Monetised benefits

The preferred option scores monetised benefits at £168.5 million over the appraisal period. This is split between improved labour force participation for carers and disabled people, increased productivity, and spill over effects. For comparison, the estimated benefits for the other options are: £181 million for 100% FTTP coverage; £18.1 million for 100% FTTC coverage; and £1.5 million for the connectivity certificate option.

The improvement in labour force participation is expected to arise through increased viability of working at home due to improved broadband speeds.

Increased productivity refers to those who already participate in the labour force, but for whom working from home would become an option as a result of the proposals. The time saved from commuting could then be put to more productive use, with an assumed split between leisure and business at a ratio of 40:60.

The Department also argues that spill-over benefits could be accrued by other premises which are near to the new build development. For example, an area previously considered uneconomic for network deployment could become

economically viable for connection to the network because a new build development extended the network nearer to the area.

Non-monetised benefits

The non-monetised benefits include reduction in travel, improved wellbeing, improved access to education and health and social services, increased consumer access, and environmental impacts.

Quality of submission

The IA is of high quality throughout. It is clear that the Department has thought about the implementation of the proposals in more detail than is ordinarily seen in consultation stage IAs; for example, displacement has been included, and a figure for teleworkers productivity displacement has been estimated. The background provided by the Department is very instructive, particularly with regard to the relevance of the Universal Service Obligation (USO) for broadband. The RPC welcomes all of this and encourages other government departments to match this level of detail.

The rationale for intervention is clear and logical; it is supported by an extensive evidence base which is easy to follow and explains both the proposals and the government's wider approach to digital infrastructure clearly. The IA would benefit from further reference to the work that the Ministry of Housing, Communities and Local Government (MHCLG) has done in this area, specifically on the 'Broadband Cost Reduction Directive'. The input of MHCLG would also have been helpful with regard to cost estimation of installing asymmetric digital subscriber line (ADSL), FTTC and FTTP connections, and possible efficiency gains through construction coordination.

The IA uses an appraisal period of 15 years. This approach is intended to reflect the lifetime of the assets and match the appraisal period typically used for capital investment in telecoms. This approach is in line with the impact assessment on Universal Service Obligation for Broadband, on which the RPC issued a 'fit for purpose' opinion. The use of this appraisal period should be tested through consultation.

The costed policy options have been shortlisted from a longlist of eight; the RPC welcomes the inclusion of an annex which shows clearly the working behind the decision to dismiss those options which were not shortlisted. This provides the consultees with the fullest range possible for their consideration.

The RPC also welcomes the extensive discussion of the benefits described in the 'impacts of proposal' section, particularly with regard to spill over and other non-monetised benefits. The Department has taken an innovative approach to estimating wellbeing benefits, which is useful in identifying the value of the various aspects which contribute to improved wellbeing.

The following aspects of the IA should also be tested through consultation and strengthened ready for final stage:

- The likelihood of obtaining a third funding stream if the cost cap for developers and operators is exceeded, and the possibility of local authorities preventing developments from going ahead if the connection level would be below 10Mbps.
- Familiarisation costs should be tested with stakeholders to ensure these are sufficiently robust.
- The assumed 40:60 split between leisure and business.
- The datasets provided by thinkbroadband, and Ofcom's Connected Nations report, which refer to connection speeds of recent new build developments.
- The baseline used to develop the 'do nothing' option.
- The IA states that an existing voluntary measure between the Home Builders Federation and Openreach "*has proved relatively successful [but] the agreement is vulnerable to a lack of take up by developers*". More discussion of the barriers to the use of existing voluntary arrangements would be useful to strengthen the argument for the necessity of a regulatory measure.
- The distributional analysis and sensitivity analysis sections contain good analysis, which currently focuses on the preferred option; the IA must strengthen this analysis further by extending that level of analysis to the other options.
- The Department estimates a cost of £3 per certificate for the provision of connectivity certificates. It must test the validity of this unit cost through the consultation process, especially given the much higher figures it has quoted for other certification processes.
- There appear to be a number of non-monetised costs including operational and administrative costs which could possibly be costed. If possible, the Department should seek to obtain some of these during the consultation.
- The status of costs and benefits as direct or indirect.
- Paragraph 164 refers to a take up rate of 20%. The Department should test and provide more explanation as to why 20% has been chosen.

The IA includes a small and micro business assessment (SaMBA) which is very detailed for a consultation stage impact assessment. The RPC welcomes the Department's commitment to consider a higher cost cap for operators when the developer is a small or micro business, thus mitigating impacts on small and micro businesses. The SaMBA should be strengthened further for final stage.

The RPC welcomes the Department's commitment to conduct a post implementation review five years after the implementation of the proposals. The IA includes the research questions that the Department intends to use to assess the impact of the proposals and sets out some elements of its proposed data collection approach; the RPC considers this type of preparation at this early stage to be an example of best practice, which it hopes to see the Department build upon by using the consultation to test and develop its evaluation approach.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£9.6 million
Business net present value	-£46.7 million
Overall net present value	£53.6 million

RPC assessment

Classification	Qualifying regulatory provision (IN)
Small and micro business assessment	Sufficient

Regulatory Policy Committee