Opinion: final stage impact assessment
Origin: domestic
RPC ref number: RPC-4474(1)- DCMS

Regulatory Policy Committee

Department for Digital, Culture, Media and Sport

Telecommunications Security Bill: national security powers in relation to high-risk vendors

RPC rating: fit for purpose

Description of Proposal

The Department explains that potential cyber security risks can largely be managed and mitigated through technical measures, with the exception of the national dependence risk, where it is necessary for government to have the national security powers to intervene to set the conditions required, including by imposing limits and controls on the use of high risk vendors, so that operators can manage the risk.

To manage and mitigate the risk of national dependence on high risk vendors, the Telecoms Security Bill will provide the Secretary of State with the power to impose a range of limits and controls on their participation in UK telecoms networks.

The proposal aims to exclude high risk vendors from the core of the network and restrict in the access network (to up to 35 per cent). This builds on the long-standing advice from the NCSC in relation to the core of the network and adds restrictions in the access network to manage the national security risk of national dependence. It would be achieved by giving the Secretary of State the power to require communications providers to exclude designated high risk vendors (and their products) from their supplier base and/or to remove such products from their existing systems.

The IA presents two options, with option one being the preferred option. Option one intends to; exclude high risk vendors from the core of the network and restrict in the access network (to up to 35%). This builds on the long-standing advice from the NCSC in relation to the core of the network and adds restrictions in the access network to manage the national security risk of national dependence. Option two intends to exclude high risk vendors from the core of the network and the access network. This goes beyond the NCSC advice.

Impacts of proposal

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The monetised costs of the preferred option (Option 1) include the costs to operators of the following requirements:

- Restrictions on the use of high-risk vendors in provisioning the Access network - £1,497m
- Excluding high risk vendors from the Core network - £72m
- Familiarisation costs - £0.2m

Additionally, Ofcom and the Department will incur monitoring costs ranging between £7m-12m.

This gives a total net present value of -£1,569.5m and a net cost to business of £182.3m, over a 10-year appraisal period.

A key non-monetised cost is the cost of oversight of Huawei (and other potential HRVs); this will cover ongoing support throughout the implementation of the HRV mitigation work and will be paid by operators.

Benefits have been monetised for the following:

- Unlocking 5G use cases that are reliant on highly secure and resilient networks, which would not otherwise have been developed; and
- Reducing dependence on HRVs in the UK 5G and FTTP networks, saving costs in the event of needing to remove HRV equipment from the network entirely.

The Department states that due to the uncertainty as to how much of these benefits can be attributed to national security powers, they have not presented a figure for total benefits but have provided breakeven analysis in this area. The breakeven analysis used in the IA calculated the proportion of benefits relating to unlocking 5G use cases that the Department would need to attribute to the national security power in order to exceed the costs of implementing this power. For the preferred option the costs of implementing the national security power are estimated to be approximately £1.670bn; the benefits would exceed the costs if attributed at least 165% of the total economic benefits of 5G-enabled use cases to the power. This falls to 124% if the benefits are taken to include the value of reducing dependence on a high risk vendor.

Quality of submission

This IA is now fit for purpose as a result of the Department's response to the RPC's initial review notice (IRN). As first submitted, the IA was not fit for purpose.

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The RPC commends the Department for the detail and explanations now provided that are supported, where possible, through stakeholder input and data sources. Following the RPC's IRN, the Department has now addressed the following points satisfactorily.

Red-rated points

1) **Unsupported assumptions –** The IA originally provided an EANDCB calculated on a number of unsupported assumptions, in areas such as rip and replace costs, the number of masts to be replaced and the impact of reduced competition on prices. The Department has now sufficiently supported assumptions in these areas by providing additional information and clarification surrounding data confidentiality. The IA has also clarified confusion surrounding the potential undertaking of an IA at secondary legislation stage.
2) **Familiarisation costs** – The IA did not provide sufficient evidence and monetisation in a number of areas relating to familiarisation. The Department has now provided additional evidence and analysis, which discusses the impacts and costs to business of understanding the proposals. This has been included in both the SaMBA and the main costs sections of the IA. The Department has now also provided further explanation and analysis surrounding time periods, staff costs and tasks to be undertaken due to the proposals. This area is now considered sufficiently supported through evidence and analysis by the RPC.
3) **Ofcom –** Costs that were originally unclear as to whether they would be recovered by business have now been stated to be recovered from Ofcom retention of the '*Wireless Telegraphy Act'* license fees that Ofcom collect on behalf of HM Treasury. This retention of funds is due to an agreement independent of the level of license fees as set out in the *'Wireless Telegraphy Act'.* This confirms that no additional costs will accrue to industry as a result of the potential for increased retention.

The Committee also highlighted five additional areas that would benefit from improvement:

1) **Huawei Technologies (UK) – The IA previously failed to monetise** the significance of both *Huawei Technologies (UK)* in the market as a leading business and the *Huawei Cyber Security Evaluation Centre*, that assisted their participation in the UK telecommunications market. The Department has now provided further information on this matter to the RPC, which is not referenced in the IA due to commercial sensitivity. Due to the high cost to Huawei Technologies (UK) and the resulting impact on the EANDCB, the RPC would encourage the inclusion of as much information as possible in the IA.

2) **Operators –** Whilst the RPC welcomes the inclusion of a footnote, with link to an Ofcom document that further explains the impact on operators, the IA would be further improved by evidence from external stakeholders as well as information from Ofcom. The additional explanation presented in the section *Exclusion of HRV equipment from the Core* is welcomed but further explanation and evidence would have further improved this area and improved the IA. Further engagement and evidence to quantify the unmonetised oversight costs incurred by operators in supporting the HRV mitigation strategy should be sought and would have benefitted the IA.
3) **Geographic restrictions –** [redacted]
4) **Fixed core network –** The Department had assumed that the fixed-line proportion of the UK core network matched the global average. Whilst the Department has amended Table 4 (p. 46) and provided additional footnotes, the IA should still include further explanation in the main IA as to why the fixed-line proportion of the UK core network matches the global average.
5) **Physical asset removal costs –** The Department had not provided a value for the expected cost of physically removing HRVs' assets from the network. This information has now been included and clarity provided for this point.
6) **Breakeven analysis –** The Department should explicitly state how the reader should interpret a breakeven analysis that needs to attribute more than 100% of specific benefits to a given measure. It is also unclear how the reduced dependence benefits are estimated and validated. The IA would benefit from discussing any offsetting effect of reduced competitive pressure, possible stimulus to innovation and growth for UK-based alternatives.
7) **Options -** The Department could set out the differences between the options more clearly. There does not appear to be consideration of wider impacts such as those on trade or displacement of supplies. The IA could also provide more evidence on whether the greater cost of Option 2 is justified.

DCMS assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANDCB)	£911.7 million
Business net present value	-£1,569.5 million
Overall net present value	-£1,578.9 million

RPC assessment

Classification	Under the framework rules for the 2017-19 parliament: qualifying regulatory provision. To be determined once the framework rules for the current parliament are set[1].
EANDCB – RPC not validated	£911.7 million (2016 prices; 2017 base year) – subject to validation once the framework rules for the current parliament are set
Business Impact Target (BIT) Score	£911.7million (2016 prices; 2017 base year) – subject to validation once the framework rules for the current parliament are set
Small and micro business assessment	Sufficient

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