

7 March 2019

Resilience Study Consultation  
National Infrastructure Commission  
Finlaison House  
15 – 17 Furnival Street  
London  
EC4 1AB

Dear Sirs,

**Labour Market Resilience Inclusion within the Resilience Study Scoping Consultation**

Thank you for the invitation to contribute to your study on the resilience of the UK's economic infrastructure, as commissioned by the Chancellor on 29 October 2018. This letter is to inform the scoping stage, and is in addition to the meeting of Sir John Armitt and the 28 utility Chief Executives and Managing Directors comprising the *Energy & Utilities Skills Partnership* in 2018, and my follow up meeting with Katie Black, Director of Policy, and subsequent labour market resilience rationale submission on 1 October 2018.

All of these engagements urge the National Infrastructure Commission (NIC) to include labour market and workforce resilience within the infrastructure resilience scoping and main phase.

Simply put, without the quantity and quality of workforce available to deliver and maintain UK infrastructure at an affordable cost, resilience of the infrastructure itself is an arbitrary point. This is particularly true for the critical energy & utility sector, who are the largest single contributor to the National Infrastructure Plan (NIP) and who also underpin almost every other UK business sector with their supply of environmental infrastructure and essential services.

Myself and sector colleagues would be pleased to meet to discuss any areas or give more detail as required. I look forward to hearing from you.

Yours sincerely



Nick Ellins  
Chief Executive

## **Comment on Terms of Reference**

We cannot see how the NIC can coherently evaluate or judge the actions needed to improve the resilience of the UK's national infrastructure with the existing terms of reference explicitly excluding the security of the supply chain and the UK's withdrawal from the European Union. Both areas are critical to current infrastructure resilience.

### *Supply chain*

These mission-critical businesses are an embedded part of the infrastructure delivery model that builds and operates many of the UK's most vital assets, and their resources and expertise bring great innovation and cost saving.

They operate across multiple markets and multiple countries, and are not obliged to stay in the UK infrastructure market. They are at liberty to leave, or adjust their risk premia, should other business sectors or countries prove to offer lower risk or better returns or be more viable in the long-term. It is essential that the NIC does take into account the confidence and security of the supply chain when judging infrastructure resilience. These stakeholders are as crucial in judging infrastructure resilience, as in maintaining the confidence of financial investors.

The supply chain has no choice other than to work in the most sustainable and stable commercial environments. It is vital for UK customers' bills and service levels that these supply chain businesses see UK infrastructure as one.

### *UK Withdrawal from the European Union*

This is crucial when considering every major aspect of infrastructure resilience including central and devolved government policy intent; market stability; policy affordability; regulatory approaches and financing decisions; City investment confidence; labour market resilience and the very operating model sustainability of the direct and indirect companies who deliver infrastructure for the UK economy. They are all impacted by the impending decisions over the withdrawal, including the ultimate affordability and needs of the UK's consumers and customers. To dismiss such a pivotal issue will leave the resulting study incomplete.

## Consultation Questions

### Q1: What are the key questions that the next National Infrastructure Assessment should answer about resilience?

A1: We recommend that the NIC review the work of the water regulator Ofwat, where the subject has been studied in depth. This will also help to define '*resilience in the round*', so that each element can be isolated and the optimal questions positioned.

<https://www.ofwat.gov.uk/publication/resilience-in-the-round/>



Ofwat advises that “*resilience in the round is about considering all aspects of resilience, including operational, corporate and financial resilience. Resilience is not just about outcomes and expenditure. It means making sure the right people, leadership, infrastructure, systems and processes, are all in place and working effectively*”. **A key question for the NIC is whether UK infrastructure is resilient to the effects of UK labour market risks and workforce sustainability.**

The final methodology for the PR19 water price review (2020 to 2025) **enshrined workforce resilience** as a major component of its approach to ‘resilience in the round’. The Ofgem RIIO-2 price setting process has just included **workforce resilience as an explicit requirement of overall resilience for energy**, in its Sector Specific Methodology consultations for the first time. <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-consultation>

Ofgem advises “*Resilience is not just about network assets: it is also about the people and processes put in place to build, operate, repair and maintain those assets, particularly when networks are under stress. Human resources with the right skills are essential to the safe and reliable operation of a network, without which the ability to deliver the services expected by customers would rapidly deteriorate.*”

**Q2: On the basis of your response to question 1, what issues should be prioritised in the resilience study**

A2: This response calls for the NIC to prioritise **labour market resilience** in the study.

Simply put, without the quantity and quality of workforce available to deliver the UK infrastructure creation and ongoing operation at an affordable cost, resilience of the infrastructure itself is an arbitrary point.

This is particularly true for the critical energy & utility sector, who represent the largest single contributor to the National Infrastructure Plan (NIP), and underpin almost every other UK business sector with their supply of essential services. We see no current evidence that the NIC can rely on the existing government labour market and devolved skills policy frameworks to protect infrastructure efficiency, productivity, workforce resilience and sustainability.

The UK labour market is at its most constrained since records began in 1975. HM Treasury describe the UK as “*at full employment*”, with the Office of National Statistics reporting record high employment; record low unemployment; EU nationals working in the UK down; EU nationals emigrating up and the general costs of employment rising. We have been keeping the NIC briefed on these UK trends through the dashboard ‘*tracking the labour market towards BREXIT*’.

This ever tightening labour market position is all in addition to the well-known and recorded workforce challenges and skills gaps that already exist in the utility infrastructure environment.

With this tightening general labour market has come greatly increased UK-wide competition for the available talent. Currently, every major business sector in the UK is publicly reporting difficulty in accessing the skilled workers they need at a price they can afford. This is inevitably driving up employment costs, forcing efficient and competitive businesses to aggressively protect their human capital.

The environmental infrastructure sector – gas, power, water, sewerage and waste management/recycling - must therefore be able to compete effectively against other UK and European sectors, and needs to win the battle for talent, if it is to deliver its government and regulatory strategies, achieve the desired productivity, affordability and secure the levels of innovation and customer service needed.

We are calling on the NIC to conclude that the environmental infrastructure businesses do not have the policy and regulatory protection they need to access and retain a sustainable labour market. As the largest contributor to the £0.6 trillion National Infrastructure Plan, it seems logical that the NIC should wish to see environmental infrastructure utilities have optimum access to the labour markets and productivity.

**Q3: Are there specific (e.g. policy, knowledge, data sharing or other) barriers to addressing resilience emerging from cross-sectoral interdependencies**

A3: In considering labour market resilience barriers, there is currently no central guiding mind in the UK government for the labour needs of the sectors that are of critical strategic value to the UK. No coordinated workforce renewal and skills strategy exists for England, GB or the UK. Skills policy has been increasingly devolved to nations, local institutions and cities with no coordination between the elements, and what exists is primarily education based.

Utility employers' experience of the devolved system has shown that the four nations' policy makers are currently working in independent and often opposing directions, with no shared focus or any joint ambitions to ensure the infrastructure sector is protected. Whilst the new Industrial Strategy initially offered thinking in the round and stated clearly the priorities of sustainable 'infrastructure' and 'people', the sector's experience is that none of the proposed activity is targeted to enable, consider or deliver infrastructure or regulated utility outputs, and the solutions proposed are primarily focused in England alone. The clear labour market challenges the UK faces do not halt at the English borders, and 'thinking in the round' is now essential.

The environmental infrastructure utilities are also currently at a distinct disadvantage from those UK sectors that are currently receiving extensive financial and policy assistance on workforce resilience from central Government. Sectors such as rail, nuclear, construction (housebuilding), life sciences, nursing, automotive and others are all deemed to be sectors of strategic value, and have received extensive support from their sponsoring departments and central government.

Whilst not one of those sectors, or society itself, could function each day without the products of the regulated utility sector e.g. fresh water, sanitation, heat, light, power and waste management, it is not yet defined as a priority sector by UK government.

As the largest single contributor to the NIP, there is enough risk and potential market failure evident, for the NIC to embed labour market resilience in its study.

**Q4: Are there any examples in which barriers to resilience issues, arising from sectoral interdependencies or other causes, have been addressed or overcome**

A4: Yes.

All of the basic policy and regulatory mechanisms to create and deliver a sustainable labour market strategy for the whole UK already exist in isolation. What is missing is coordination. The vast majority of the necessary stakeholders are also in place, but with no central coordination to guide their efforts towards one goal.

The general need for a resilient, skilled and sustainable workforce has increasingly been recognised by central and devolved governments, as a key challenge for all the main UK business sectors in a post-European business environment.

The UK Government Industrial Strategy does provide a working example of how sectoral interdependencies and barriers are intended to be overcome by unified action, across all agencies, stakeholders and business communities.

The Industrial Strategy already explicitly recognises ‘people’ as one of its five key pillars for action, and the vital nature of ‘infrastructure’ as another pillar. The two are deemed key to the future of the UK economy.

Whilst the Industrial Strategy has not delivered central and devolved government coordination or UK labour market resilience so far, the basic philosophy remains a mechanism that could address and overcome the sustainability challenge. HM Treasury has a major responsibility here, and needs to step up as a champion for coordinating infrastructure resilience.

Former Commercial Secretary to the Treasury, Lord O’Neill, previously advised: “It is crucial we have the right people with the right skills in place to build and maintain our first-class infrastructure, essential to rebalancing our economy.”