

Title: Political control of state-owned utilities in the UK

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BACKGROUND

- The Labour Party has raised the issue of renationalising various UK utilities, not least to have more political control over the industries in question. However, political control of utilities is problematic, regardless of whether the companies are state-owned or privately owned. On the one hand, the political salience of the industries means that politicians will understandably want a real say in what the industries deliver. On the other hand, day-to-day political intervention in the industries tends to damage operating efficiency.
- With both the 1940's nationalisations and the more recent privatisations, governments have tried to surmount this conflict by appointing an 'agent' to deliver the required objectives, while, at least in theory, giving that agent significant independence from continued political intervention. In the nationalised era, the agents were the boards of the public corporations. In the privatised era, the agents have been the economic regulators.
- This paper examines the lessons from both eras to see whether lessons can be learned for how political control of utilities might be exercised more effectively in the event of future nationalisations.

METHODOLOGY

- Research based on qualitative analysis of the workings of the different political control regimes in the nationalised and privatised eras.

KEY FINDINGS

- During the nationalised era, performance of the nationalised utilities was compromised by ministers' preferred method of exercising political control - frequent, informal and, as such, relatively impervious to parliamentary (or other) scrutiny.
- By and large in the privatised era (with at least one major exception which is analysed in the paper), economic regulators have been left reasonably free of day-to-day political intervention, with changed political objectives being implemented through changes in primary legislation and/or other formal and transparent mechanisms, like 'Strategy and Policy Statements' or 'Strategic Steers'.
- The experience of the privatised era offers possible lessons for how political control might be exercised in the event of future nationalisations - specifically, the need for an independent agency (whether or not called a 'regulator') between the minister and the utility, with that agency having a transparent brief on how it should interpret its (inevitably high-level) statutory obligations and with that brief being changed relatively infrequently.
- Such a framework would *encourage* the exercise of political control in a way which would mitigate the sort of damage to industry performance which has, in the past, resulted from more frequent and/or informal interventions. It would not *guarantee*

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such an outcome, especially when politically unpopular decisions are involved and ministers want to divert blame to the chosen agent.

POLICY ISSUES

- The underlying question being posed is whether a different institutional framework for political control of future state-owned utilities, compared with that which applied to previous nationalisations, could better reconcile political control with operating efficiency in the industries concerned
- The overall conclusion is that such a framework, closer to that which now applies to privatised utilities, would be helpful.

SUGGESTED CITATION

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