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Executive summary

Labour's 2019 general election manifesto pledged to "bring rail, mail, water and energy" alongside "the broadband-relevant parts of BT" into public ownership.[1] In this report we set out the scale of this proposed programme of nationalisation and some of the key issues it would raise.

- Labour proposes to nationalise mail, water, energy distribution and supply, train operators and fibre broadband provision. This would bring at least 5% of the total UK assets currently held by private companies into public ownership, lead to an over £200 billion increase in the assets owned by the public sector and would add over 310,000 to the size of the public sector workforce.

- It would also bring at least £150 billion of debt onto the public balance sheet on top of the sum paid out to the current owners of these assets in compensation. The cost of appropriately paying for these companies is uncertain as many of them are privately owned, though it would certainly come, at the very least, to many tens of billions of pounds.

- It will be important to provide compensation to current owners at the appropriate market price. To pay more would represent bad value for money for the taxpayer. To pay less would amount to an expropriation of private property, which would leave current owners (including pension funds) out of pocket. Many of the privately held companies are foreign owned. Paying less than their full market value would risk harming the UK's reputation and standing with other countries.

- A certain amount of state control in these industries is not uncommon in the rest of Europe, and having a privately managed and owned water industry makes England and Wales outliers relative to elsewhere in Western European (including Scotland and Northern Ireland). But, nationalisations on this scale in advanced western economies have been almost unheard of in the last half century.

- These are important industries for the operation of the UK economy. They are economically big in themselves, but that understates their importance to the operation of the UK economy more broadly. Reorganising the ownership and structure of these industries, while simultaneously achieving the ambitious targets that have been set (for instance the rapid decarbonisation of the electricity and gas grids), risks years of disruption.

- Given their importance, and the enormous cost, complexity and risk involved in bringing them into public ownership the key question must be what is it that can be so much more readily achieved through a transfer of ownership that cannot be achieved through altering the current regulatory framework. These are, after all, all industries subject to significant regulatory control and it is unclear which of Labour's stated objectives could not be achieved via changes to the current system of regulation.

[1] "It's Time for Real Change" The Labour Party Manifesto 2019.

1. Introduction

Labour’s 2017 general election manifesto pledged to nationalise key parts of the energy and water industries, and Royal Mail. In addition it proposed bringing private rail operating companies into public ownership when their licenses expired. The 2019 manifesto goes further in two respects. First, it pledges to bring into public ownership parts of BT Openreach in order to for “British Broadband” to install fibre optic broadband to every household and business and for this service to be delivered and maintained free-of-charge. Second, whereas the 2017 manifesto pledged to nationalise the national grid and energy distribution companies, the 2019 manifesto also committed that “the supply arms of the Big Six energy companies will be brought into public ownership”.

This report provides a high-level examination of some aspects of this very radical set of proposals. In Section 2 we set out in more detail Labour’s proposals (with Appendix A providing more detail of the energy and water companies which Labour’s plans imply that they would nationalise) and their stated rationale. In section 3 we present some indicators of the size of these industries and set them in context. Section 4 discusses the issues around estimating the current value of these companies and what their nationalisation would mean for public sector net debt. Section 5 describes how current practice in the UK compares to that seen elsewhere. Section 6 briefly concludes.

2. Labour's proposals

This section sets out the industries in which Labour is proposing widespread nationalisation and their stated objectives for this. There are five industries that feature in Labour's nationalisation plans: energy distribution and supply, water and wastewater services, Royal Mail, rail, and the broadband network.

Energy

Gas was privatised in the UK in 1986 and Electricity followed in 1989. Labour propose to bring gas and electricity networks back into public ownership. This would include establishing public ownership of the four licensed and regulated electricity and gas transmission companies, and their subsidiaries, that own the networks and other assets in England, Scotland and Wales. This also includes establishing ownership of the 14 electricity distribution licenses and 8 gas distribution licenses, and their subsidiaries.[2] Labour lists all of these in their 'Bring Energy Home' (2019)[3] plan. The 2019 manifesto[4] goes further than their 2017 one by committing to nationalising the supply arms of the Big Six energy companies.[5]

Labour argue that public ownership would deliver better value for the public, accelerate and coordinate the investments needed to roll out renewable and low carbon energy, provide democratic control over nationally strategic infrastructure and ensure decentralisation occurs equitably.

Under the new system, a National Energy Agency would be set up which would take ownership of the transmission networks, take over some policy making functions that are currently done by BEIS, set regional de-carbonisation targets and regulate energy systems (currently the role of Ofgem). Regional Energy Agencies (REAs) would own the electricity and gas distribution and would be responsible for de-carbonisation, fuel poverty and communication with councils. In addition, Municipal Energy Agencies would own and operate local distribution and supply of energy, devolved from the REAs. Lastly Local Energy Communities would exist which are community owned at housing estate or village level. Their eventual aim would be to develop local renewables and engage with micro-grid operations.

Water

The bulk of the water and wastewater industry in England and Wales was privatised[6] in 1989, and most such services in these countries are provided by one of 16 companies

[2] In Bring Energy Home, Labour list the '19 licensed and regulated electricity and gas distribution companies' that they would bring into public ownership. In fact, there are 14 electricity licenses (which they list) that are owned by six groups. There are 8 gas licences, that are owned by 4 companies (as Scotland and Southern gas are one company), and Labour list the 4 companies, rather than the 8 licenses.

[3] "*Bring Energy Home*" Labour's proposal for publicly owned energy networks (2019).

[4] "It's time for real change" Labour's 2019 Manifesto.

[5] OVO is currently in the process of buying SSE's supply arm. Thereby taking SSE's place in the Big Six.

[6] The six independent water-only companies have been privately owned since their inception, and several existed as private companies even when the larger water and wastewater distributors were publicly owned.

(although note that Welsh Water – the regional supplier for Wales – is unique in that it is run as a not-for-profit)[7]. Labour's stated plan would be to maintain the current regional structure of the water industry – which consists of 10 major water and wastewater suppliers across England and Wales – but transfer ownership of the existing companies to new Regional Water Authorities (RWAs).

There are several stated goals of this nationalisation, including: the systematic reinvestment of any future surpluses into water infrastructure and staff, or the reduction of bills; a long-term perspective guiding investment decisions; and pricing which is fully transparent and reflective only of the cost of providing water.[8]

National standards of the new RWAs would be monitored by a new National Water Agency, created from the absorption of the current regulator (Ofwat) into the Department for Food and Rural Affairs (DEFRA). Strategic direction for the individual RWAs in the new system will be handled by a board consisting of local council officials, trade union representatives, a representative of the public, and members nominated by one of each of Citizens Advice, and the Environment Agency, while day-to-day operations will be handled by industry professionals.

Mail

Royal Mail was privatised in three parts between October 2013 and October 2015. Labour plan to re-nationalise Royal Mail but they have specified no detailed plans in terms of how it would manage the industry. Labour claim that "In private hands, Royal mail has increased stamp and parcel charges, and failed to meet its customer service obligations, while its owners trade shares at significant profit".[9] Their 2017 manifesto also references a belief that Royal Mail was sold "on the cheap". However, while the share of price of Royal Mail did remain above its price on privatisation of 330p per share for quite some time, it has traded at below that level throughout the last year.

Rail

The body that owns and maintains the rail infrastructure of Great Britain, Network Rail, is already publicly owned. Passenger services are contracted out to train operating companies (TOCs), which are usually (but not always) privately owned companies, through a system of franchising. Labour proposes to bring passenger services back under public management as the current franchises expire. There are currently 17 franchises in England, Scotland and Wales. Some franchises such as Caledonian Sleeper do not expire until 2030. However, the Shadow Chancellor has stated that Labour is examining railway franchise contracts in detail to figure out if they could be renationalised quicker.[10] The party says that re-nationalising routes would allow fares to be capped and services to be more reliable.

[7] *Public ownership of industries and services*, Rhodes et al., House of Commons Library Briefing Paper (2018).

[8] "Clear Water" Labour's Vision for a Modern and Transparent Publicly-owned Water System.

[9] "For the Many, Not the Few" The Labour Party Manifesto 2017.

[10] https://www.bbc.co.uk/news/uk-politics-45609604

Broadband

Labour has proposed to nationalise the digital network arm of BT, Openreach, to create a UK-wide network owned by the government.[11] This new state-owned enterprise would be set the objective of offering free full-fibre broadband to all households and businesses in the UK by 2030.

Labour has estimated the set-up cost for this free fibre-optic service at around £15 billion on-top of the government's existing £5 billion earmarked for broadband expansion. This would be in addition to the up-front purchase cost for Openreach. They have also estimated that once up and running a UK-wide full-fibre network will cost around £230 million a year to maintain. Openreach division's operating costs are currently over £2 billion.[12]

Currently only an estimated 8% of the UK have access to full-fibre broadband[13], although over 95% of premises have 'super-fast' broadband (speeds of 24 Mbps or more). Labour argue that the internet should become a 'treasured national institution for the 21st century'.

[11] https://www.bbc.co.uk/news/election-2019-50427369

[12] Openreach section of BT Group plc Annual Report & Form 20-F (2019).

[13] Connected Nations Update (Ofcom, 2019).

3. How big are the industries that Labour would nationalise?

This section presents some estimates of the size of the organisations that Labour proposes to nationalise. First, we look at the total assets that would now be managed by the public sector, which we set in context by comparing to the total value of the assets already managed by the public sector. Second, we estimate the total number of employees that would be transferred from the public to the private sector.

Currently, these industries have assets totalling over £200 billion and they employ a workforce that is over 310,000 strong. As shown in Table 1 nationalisation of the infrastructure-heavy water and energy distribution industries would each add close to £100 billion to the assets under public sector management. By comparison, Royal Mail's assets – at £7 billion – are much more modest. The Big Six energy companies are all multinational companies themselves (such as E.ON) or a company of a larger group (such as British Gas which is owned by Centrica). This makes assessing their size in the UK market alone difficult. However, energy supply companies, as the intermediary between wholesale energy generation and the consumer, are likely to have a less substantial stock of assets.

A further increase would come from the nationalisation of BT Openreach. However, unlike in the other industries, the broadband proposal is offering a (largely) new service to the public and businesses rather than just taking ownership of an already existing utility. The BT Group owns just under £16 billion in network infrastructure across the UK.[14] But it is not clear how much of these would be subject to nationalisation (or from other private sector broadband providers). Given that the future costs associated with Labour's plan to provide free access to fibre optic broadband for every household and business in the UK will be uncertain (but probably much larger than the up-front assets acquired), we cannot provide a reliable estimate as to the scale of this nationalisation.

In contrast to the increase in assets, much of the increase in employment would come from the much more workforce-heavy nationalisation of Royal Mail (over 140,000) while employees of the rail industry add a further 55,000. While smaller, the numbers of employees in the energy distribution, water and broadband industries that would be moved across are still substantial. Nationalising energy supply would further increase the size of the public sector workforce count. British Gas, who is the dominant energy supply service had over 22,000 employees in 2018.

[14] BT Annual Report 2019.

Table 1. Measures of industry size

Industry	Non-financial assets (excl. land) (£bn)	Total assets (£bn)	Employees (000's)
Water	80	94	42
Energy D & T	85	96	38
Mail	2	7	143
Rail	n/a	n/a	55
BT Openreach	Not known	Not known	32
Total	**Over 170**	**Over 200**	**310**

Note: Non-financial assets include property, plants, equipment and inventory. Energy D & T includes energy distribution and transmission but does not include energy supply, which is discussed in the main text. In absence of Openreach, Non-financial assets (excl land) are over £167bn and total assets are over £197bn. The totals reported take into account some contribution from BT Openreach and energy supply.

Source: Information on assets and number of employees taken from companies' most recent annual reports, for rail employee numbers are drawn from ORR TOC key statistics 2018–19.

To put these numbers in context Table 2 compares them to the current size of public corporations, to the public sector as a whole and to the private sector as a whole. Overall nationalisation of water, energy and mail would transfer over 5% of the UK assets current owned by private sector companies to the public sector. It would increase the assets held by public corporations by 54%, and by the public sector as a whole by 17%. On the employment side, nationalisation (including rail and BT Openreach) would represent a transfer of just 1% of existing private sector employees to the public sector, almost trebling the numbers employed by public corporations and the overall size of the public sector workforce by 6%.

Table 2. Total size of industries as a share of private and public sector (%)

Sector	Non-financial assets (excl. land)	Total assets	Employees
Public:			
Public Corporations	141%	54%	193%
Total Public Sector	24%	17%	6%
Private companies	8%	5%	1%

Note: Public sector is general government plus public corporations, private sector includes private non-financial corporations and financial corporations. Numbers do not include BT Openreach, or energy suppliers.

Source: As Table 1, and UK National Balance Sheet (end of 2018).

It is clear therefore that these nationalisations would represent a significant restructuring of the economy. Whether Labour could successfully achieve their stated aims of nationalisation would depend on how well these additional productive inputs are eventually managed in the public sector. Given the critical nature of these industries for both households and businesses the cost of managing them less well – and the gain from managing them better – than would have been the case under continued private ownership would be greater than these numbers suggest.

There are many indicators consistent with poor performance of these companies under both public and private ownership. In contrast there are few recent systematic analyses of effects of nationalisation. There are, however, some studies examining the effect of privatisation. Of course, the effect of moving from one system to another may or may not be symmetric. This makes it difficult to conclude on potential gains or losses of the proposed policies. Judgment in this regard based on previous evidence is made harder by the possibility of selection into which industries become nationalised (e.g. poorly performing companies of national importance) or privatised (Knyazeva et al, 2013[15] note that governments are more likely to privatise firms that are performing well).

Context specific evidence is mixed: Lannier and Porcher (2014)[16] find public management is more efficient than private management in France's water utility industry whereas lo Sorto (2013)[17] finds efficiency gains from private involvement in Italy's water industry. Research on past privatisations in the UK find no strong evidence supportive of efficiency gains across industries (see Green and Haskel, 2004[18]; or Saal and Parker, 2001[19]). There is, however, evidence of efficiency increases in the period just prior-to privatisation.[20]

What is clear is that failing to manage these companies well – under public or private ownership – would make it harder for a Labour Government to meet its ambitious targets such as over the rapid decarbonisation of the electricity and gas grids or achieving much better broadband connectivity across the country. Reorganising the ownership and structure of these industries through nationalisations could come at the risk of creating disruptions and upheaval that also makes it harder to meet those goals. One alternative would instead be to reform and strengthen the system of regulation. An OECD study using data from 2013 found that – at least within Electricity, Gas, Telecoms and Rail – regulation in the UK was relatively light, potentially suggesting scope to tighten regulation without incurring costs of over-regulation (see Box 1).

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[15] A. Knyazeva, D. Knyazeva, J. Stiglitz "*Ownership change, institutional development and performance*", Journal of Banking and Finance (2013).

[16] A. Le Lannier, S. Porcher, "*Efficiency in the public and private French water utilities: prospects for benchmarking*," Applied Economics (2014), Taylor & Francis Journals, vol. 46(5), pages 556-572.

[17] C. lo Sorto "Are Public-Private Partnerships a Source of Greater Efficiency in Water Supply? Results of a Non-Parametric Performance Analysis Relating to the Italian Industry", Water (2013) 5, 2058-2079.

[18] R. Green, J. Haskel, "*Seeking a Premier-League Economy The Role of Privatization*," (2004) NBER Chapters, in: Seeking a Premier Economy: The Economic Effects of British Economic Reforms, 1980-2000.

[19] D. Saal D. Parker "Productivity and Price Performance in the Privatized Water and Sewerage Companies of England and Wales" Journal of Regulatory Economics (2001) Vol 20, Issue 1, pp 61-90.

[20] See e.g. R. Green, J. Haskel, https://www.nao.org.uk/wp-content/uploads/2014/04/The-privatisation-of-royal-mail.pdf

Box 1. The role of regulators

Regulatory bodies are set up to protect consumers in markets where there is a lack of natural competition or potential for abuse of market power. Their activities can include setting price ceilings, enforcing minimum standards of service, and incentivising investment. Regulation differs from direct government provision of services as it relies on market-based mechanisms to achieve government policy objectives.

In industries where certain objectives may conflict with profit maximising behaviour, and potential externalities exist, the regulator can be a useful tool. One example is reducing environmental damage. For instance, Ofgem helps to fund the use of greener or more innovative technology through schemes such as the Electricity Network Innovation Competition.

The degree to which a government wishes to regulate can vary. Under-regulation can lead to poor services, high costs to consumers and increasing negative externalities (such as unclean air). Over-regulation can stifle competition, investment and growth by imposing prohibitive costs on regulated companies.

As of 2013, the UK was judged to sit well below average in network regulation in Electricity, Gas, Telecoms and Rail compared to other OECD countries.[a] This suggests that there may be room to increase regulation in these sectors in order to pursue new or more ambitious objectives.

[a] 'A Short Guide to Regulation' National Audit Office, 2017.

4. Compensation and the impact on public sector net debt

Labour have stated[21] that the level of compensation – in the form of government backed bonds – to be awarded to existing shareholders in the companies being nationalised would be decided by parliament. In *Bringing Energy Home* Labour state that deductions may be made on the basis of "pension fund deficits; asset stripping since privatisation; stranded assets; the state of repair of assets; and state subsidies given to the energy companies since privatisation". The purchase cost that this implies would likely be markedly different from the value that they would fetch on the open market.

Determining the right level of compensation is difficult. Unfortunately it also matters enormously as there would be significant downsides to getting it wrong. Quite obviously overcompensating current shareholders would place an additional burden on the taxpayer. Undercompensation would directly hurt investors, including UK households who own shares directly or have an investment via defined contribution pension schemes. Moreover, a perception that shareholders have been undercompensated could negatively affect future UK business investment in any companies where there was a perceived increased risk of nationalisation without full compensation. This might be particularly acute in those industries that were previously in public ownership but don't currently feature in Labour's plans, such as British Airways, British Steel and the remainder of British Telecom.

There are additional risks of legal consequences to the expropriation of private assets in this way and, given the prevalence of foreign ownership in many of these companies, possibly diplomatic consequences too. If this serves to dissuade foreign investors from saving in the UK, this could also depress the value of the pound and force domestic saving to rise in order to compensate. Since Labour announced their proposals, several companies[22] have seen ownership of significant portions of their UK operations moved abroad to countries covered by either the Energy Charter Treaty[23] (ECT) or bilateral investment treaties. These forms of treaty may act as additional legal hurdles if in the event of nationalisation parliament were to attempt to compensate shareholders at less than market-based value.

In addition to the upfront cost of paying for the companies, the government would also take on any liabilities that these companies have on their balance sheets. Liabilities minus any liquid financial assets directly add to public sector net debt (PSND). Thus PSND will increase by the purchase cost (because the government will take on additional liabilities in the form of the bonds they issue) plus the liabilities that these firms already owe (and which Labour have, appropriately, said would be honoured), less any liquid assets that the companies hold at the time of acquisition.

[21] See e.g. "Clear Water" Labour's Vision for a Modern and Transparent Publicly-owned Water System, "Bringing Energy Home" Labour's proposal for publicly owned energy networks.

[22] e.g. https://www.investorschronicle.co.uk/shares/2019/11/26/energy-giants-seek-refuge-overseas/

[23] The ECT is a multilateral agreement on a shared framework for cross-border cooperation in the energy industry. One aspect of the industry that it covers is investor protection. The UK is itself currently a signatory.

At the 2017 general election Labour pledged that public sector net debt would be lower at the end of a full parliament than at the start – a commitment that was simply incompatible with their programme of nationalisation. Of course were the Government to acquire the nationalised assets for what they were worth then the increase in public sector net debt would be the same as the increase in the assets held by the public sector. Therefore the increase in debt might not be of concern, not least because as long as they were well maintained by the public sector they could always be reprivatisated for an equivalent amount at some point in the future. Labour has now changed its fiscal framework – it has a target to ensure that public sector net worth does not fall. This is a measure that attempts to take into account the value of the public sector's asset, as well as its debts. Labour's target allows for increases in public sector net debt so long as they are matched by increases in public sector assets.

Estimating market value

For companies that are publicly listed, such as Royal Mail, a current valuation is provided by their market capitalisation. To the extent to which the possibility of nationalisation with a low level of compensation is priced into the current share price this could represent an underestimate of the value of the company had Labour's policy intention never been announced. In which case an appropriate level of compensation might be better obtained by averaging the market capitalisation over a time period prior to the election (and thus before the market has entirely priced the risk of under-compensation into the share price) For example the average value over the last 3, 6 or 12 months could be taken.

Such an approach would seem straightforward and would have much to commend it. However publicly-listed companies are few and far-between in the energy distribution and water sectors. There are two relevant energy companies that are publicly listed. First, National Grid, where the listed share price includes the value of its substantial US operations, and thus may not be a good representation of the cost of the UK operations that a Labour Government would be looking to nationalise. Second, SSE is listed on the London Stock Exchange. However, in addition to owning and supplying the network, they also generate energy and have overseas investments, hence estimating the proportion of their market capitalisation which their UK operations account for would be difficult. Two water providers – Severn Trent and United Utilities – are publicly listed[24], meaning another method would be needed for valuing the 14 other providers across England and Wales. The Big Six energy suppliers are frequently subsidiaries of much larger, diversified, or multinational parent companies and this obfuscates the value of supply operations alone – for this reason we will exclude them from further analysis.

The book-value of these companies' equity, meaning the value of the assets that they hold minus any liabilities owed, gives a rough measure of the net worth of the companies if they were liquidated immediately. This, however, clearly ignores the current valuation of any potential future profits they would otherwise have expected to earn. In reality, future potential profits would also be included in the companies' current valuation. As such, equity typically has a poor correspondence with the market capitalisation of publicly-listed

[24] South West Water's parent group Pennon is publicly listed, but this group is diversified to a greater degree than the other two publicly listed water companies and therefore we deem it a poor measure of SWW's value alone

companies[25], as well as with the implied value of those privately-held firms in which stakes have changed hands in recent years.

An alternative proxy for the value of these companies could lie in the stock of assets that they own. Ofwat and Ofgem (the water and energy market regulators respectively) both publish measures for the value of assets controlled by the firms that they regulate. Ofwat call this Regulatory Capital Value[26] (RCV), and Ofgem, Regulatory Asset Value[27] (RAV). Both are estimated values of the initial capital and debt of the companies at privatisation, adjusted every year for inflation (RPI) and investments made by the companies into their capital stock. The measures are used when setting industry price limits, to allow a certain return on capital employed for investors, subject to performance. In a recent report[28] the CBI used these regulatory asset values, with a mark-up of 30%, to estimate the up-front cost of nationalising water and energy distribution companies, for those cases where they are not publicly listed. This method of valuation ignores any debt that may have been acquired in the accumulation of assets following privatisation. But – and in the other direction – it also ignores the fact that the market capitalisation of a company will additionally depend on what profits it expects to earn in the future. For the two publicly listed water companies, such a measure has a relatively poor correspondence with their market capitalisation. Using the RCV as of 31st March 2019 this method would value Severn Trent at around £11.9 billion and United Utilities at £14.8 billion – these companies had respective market capitalisations of roughly £4.6 billion and £5.5 billion around the same date.

Rail and Broadband

There would be no up-front purchase cost to nationalising the rail industry, because the network infrastructure is owned by Network Rail, already an arm's length public body of the Department for Transport. Rail nationalisation therefore would not directly contribute to public sector net debt – any balance sheet debt will already feature in the national accounts through the government's ownership of Network Rail, and the government wouldn't have to buy-out existing franchisees, simply wait for their current contact to come to an end.

BT Group is publicly listed, but Labour have so far only clearly specified an interest in nationalising one part of the Group, Openreach, which owns and manages most of the UK's telecommunications infrastructure. Without a clear way to value this subsidiary independently, without clarity as to the fate of the rest of the group (nor that of other private broadband providers in the UK), and given the uncertainties around the scale of the rest of the plans that Labour have for the UK broadband industry, we will exclude broadband from further analysis in this regard. For some sense of scale, The BT group as a whole has a market capitalisation of over £19 billion, total equity of over £10 billion, and balance sheet debt of around £34.5 billion.

[25] For instance Severn Trent Water report a book-value of equity of just under £1.2 billion in their 2018/19 financial year annual report; their market capitalisation around the same time was approximately £4.6 billion

[26] https://www.ofwat.gov.uk/publications/rd-0410-regulatory-capital-values-2010-15/

[27] https://www.ofgem.gov.uk/ofgem-publications/48279/glossarypdf

[28] *Renationalisation: The Cost* Confederation of British Industry, 2019.

Estimated compensation and the impact on public sector net debt

The total debt, net of liquid assets, held on the balance sheets of the water, energy distribution and rail companies that Labour plans to nationalise is almost £150 billion, with the majority of this coming from the infrastructure-heavy water and energy industries and only a modest amount from Royal Mail. As described above working out the current market valuation of these companies is difficult (apart from the cases where they are publicly listed), but a fair valuation will likely be well in excess of their total £50 billion of book value of equity (see Table 3).

So the total increase in public sector net debt under reasonable compensation would certainly be more than £200 billion and could be substantially higher. But – to stress the point made above – it is whether nationalisation led to the assets and employees in these industries being managed better or worse that matters, not the headline increase in public sector net debt. What the increase in debt does again show is the large scale of these nationalisations and therefore the large rewards from better management, but with it the significant cost of poor management.

Table 3. Estimated balance sheet contribution to PSND of water, energy and mail; total book-value of equity for these industries

Industry	**Balance sheet contribution to PSND**	**Total book-value of equity**
	(£ billion)	
Water	77	15
Energy	69	26
Mail	3	5
Total	**146**	**46**

Source: Authors' own calculations using company financial statements,

5. Public ownership in other contexts

Nationalisation on this scale has very little precedent in recent decades. However, a greater level of state involvement in the ownership and management of these kinds of utilities is not uncommon in other countries.

For instance, England and Wales are unique amongst EU states in having water services wholly under direct private management.[29] Other countries in the EU have services run directly by the public sector, indirectly by the public sector through majority ownership of a private company or corporation (as is the case in Scotland and Northern Ireland), or work under a system where the public owns most of the infrastructure and contract out provision to private sector companies for a fixed term.

Amongst OECD countries, it is also more common than not for Energy distribution utilities to be publicly owned (19 compared to 15). UK, Spain, Portugal and Italy have electricity distribution networks that are largely privately owned, in France and Ireland public ownership is at the national level and in the Netherlands and Germany public ownership is at the municipal level. The latter may be a closer model to Labour’s proposals. In terms of energy supply, Nottingham and Bristol are examples where the councils are already supplying energy. In Scotland the SNP has announced a commitment to delivering, with local authorities, a public energy company offering retail energy supply by March 2021.[30] EDF energy which supplies (amongst other services) energy in France was state-owned until 2004. Currently, it is a limited liability company, and the state still owns around 55%. Publicly run energy supply seems less common than ownership of the networks themselves.

Since 1998, EU regulation has imposed a stepwise opening of markets in previously state-monopolised postal sectors, and postal markets across the EU have been fully liberalised[31] since 2013. In reality, postal sectors are still in many countries dominated by a single organisation[32], usually the former state-monopoly – although many of these have been privatised over the last 25 years. For instance, Deutsche Post in Germany or La Poste in France both operate as public limited companies. However, in these cases and elsewhere (Italy, Greece and Belgium for example), the state has maintained at least some proportion of the company’s shares, ranging from 20-90%. Spain, Ireland and Switzerland all have fully-state owned postal services. In this regard, the UK does seem to be quite a rare case in having a fully-privately owned postal service.

In Europe, we can see examples where Rail is fully publicly owned (notably France and Northern Ireland), however it is more typical for the Rail infrastructure to be publicly owned and passenger services to be opened up to private competition (similar to the current UK situation). This is seen in Germany, where DB Regio operates regional passenger services, which are subject to competitive tender processes. This is also true in Italy and Sweden. Other countries have more public ownership such as the Netherlands

[29] The Governance of Water Services in Europe EurEau (2019).

[30] Home energy and fuel poverty, Scottish Government (2019).

[31] https://ec.europa.eu/growth/sectors/postal-services/eu-postal-services-policy_en

[32] https://webgate.ec.europa.eu/grow/redisstat/databrowser/view/POST_CUBE1_X$NUM701/default/table?category=GROW_CURRENT

where the dominant rail operator is 100% owned by the Dutch Government but some support functions such as NS's civil engineering design offices are privatised.[33]

Under planned EU legislation nationalisation of the rail industry could be tricky. The Fourth Railway Package of 2016 aims to make the rail sector more competitive. Under this package, subsidised routes will have to be put out to open tender and private companies are allowed to bid for them. The existing state incumbents can also bid. This has to be in place from 2023 onwards.[34]

The UK's low level of fibre-optic broadband reach compares poorly to other countries - compared to EU member states it performs better than only Cyprus, Belgium and Greece.[35] Different models to invest and improve broadband coverage are used across Europe and the USA.[36] Looking to the Nordic countries, for example Suupohja in rural Finland, a publically run municipal network model (public DBO) is common. An alternative is a privately-run municipal network model where the public authority procures the building and operation of a broadband network in the region from a private actor, an example of this is seen in the Piedmont region in Italy. The community broadband model where local residents carry out broadband investment as a private initiative has been deployed in some parts of the UK and the US. Alternatively, an operator subsidy model can exist where the public authority is not directly involved in the broadband deployment projects of the region but they subsidise one market actor to upgrade its own infrastructure, this is seen in Cornwall with BT.

Australia is the only recent example of a country attempting to nationalise broadband. Australia established National Broadband Network (NBN) in 2009 as a state owned enterprise. The government's plan was to roll out full fibre to 93% of premises. So far, NBN has been beset by delays and has been criticised for increasing costs. However, Australia and the UK do have key differences, for instance Australia as a whole is much more sparsely populated than the UK.

[33] Current railway models: Great Britain and overseas – Country summaries (Williams Rail Review, 2019).

[34] Regulation (EU) 2016/2338 of the European Parliament and of the council of 14 December 2016 amending Regulation (EC) No 1370/2007 concerning the opening of the market for domestic transport services by rail.

[35] Connectivity – Broadband market developments in the EU - Digital Economy and Society Index Report (2019).

[36] Digital Single Market - Investment models (Europa, 2017).

6. Conclusions

Labour’s proposed programme of nationalisation is certainly radical. The 2017 manifesto pledged to nationalise key parts of the energy and water industries, and Royal Mail while bringing private rail operating companies into public ownership when their licenses expired. The 2019 manifesto repeats these commitments, and goes further with a commitment to a state owned “British Broadband” and to bring the supply arms of the Big Six energy companies into public ownership.

We estimate that these policies would move over £200 billion of assets, and over 310,000 employees, from being managed by the private sector to the public sector. The debts of these companies would also move to the public sector balance sheet directly adding over £150 billion to public sector net debt. Paying the right level of compensation to the current owners of these assets would be very important. Too high and taxpayers lose. Too low and it would both directly harm those investors and would also risk depressing future business investment, in particular from foreign investors in other previously nationalised companies. Compensation would also add to public sector net debt. The appropriate cost of these companies is uncertain as many of them are privately owned, though it would certainly come, at the very least, to many tens of billions of pounds.

Having greater public sector involvement in water, energy and rail than the UK does at the moment would be far from unusual when compared to other European countries. The bigger questions are over how, and how well, these industries would be run. Pursuing the additional objectives that Labour have put forward (such as increasing rail staffing or accelerating the integration of renewable energy generation into the distribution networks), whilst concurrently aiming to maintain prices at or below current levels would add additional layers of complexity to this challenge.

The importance of these industries to households and the smooth operation of the economy means that figures on the scale of the organisations that would be nationalised are not the primary issue. What matters is how well they are run. A clear question remains over what can be achieved in that context by nationalisation which could not be achieved by regulatory reform.

Appendix A. Affected Companies in the Energy and Water Industry

Energy

Company	Company Type
National Grid Electricity plc	Electricity Transmission
SP Transmission plc	Electricity Transmission
Scottish Hydro Electric Transmission plc	Electricity Transmission
Electricity NorthWest LTD	Electricity Distribution Networks
London Power Networks plc	Electricity Distribution Networks
South Eastern Power Networks plc	Electricity Distribution Networks
Eastern Power Networks plc	Electricity Distribution Networks
Western Power Distribution *(South West) plc*	Electricity Distribution Networks
Western Power Distribution *(South Wales) plc*	Electricity Distribution Networks
Western Power Distribution *(West Midlands) plc*	Electricity Distribution Networks
Western Power Distribution *(East Midlands) plc*	Electricity Distribution Networks
Northern Powergrid (Yorkshire) plc	Electricity Distribution Networks
Northern Powergrid (Northeast) plc	Electricity Distribution Networks
Southern Electric Power Distribution	Electricity Distribution Networks
Scottish Hydro Electric Power Distribution	Electricity Distribution Networks
SP Distribution	Electricity Distribution Networks
SP Manweb	Electricity Distribution Networks
National Grid Gas plc	Gas Distribution Networks
Cadent Gas Limited	Gas Distribution Networks
Southern Gas Networks Plc	Gas Distribution Networks
Northern Gas Networks Limited	Gas Distribution Networks
Wales & West Utilities Limited	Gas Distribution Networks
Scottish Gas Network	Gas Distribution Networks
British Gas	Energy Supply
EDF Energy	Energy Supply
E.ON UK	Energy Supply
Npower	Energy Supply
Scottish Power	Energy Supply
SSE (Ovo Energy from 2020)	Energy Supply

Water

Company	Company Type
Anglian Water (includes Hartlepool Water)	Water & Wastewater
Thames Water	Water & Wastewater
Dŵr Cymru Welsh Water	Water & Wastewater
Northumbrian Water (includes Essex & Suffolk Water)	Water & Wastewater
Severn Trent Water (includes Hafren Dyfrdwy Water)	Water & Wastewater
Southern Water	Water & Wastewater
South West Water (includes Bournemouth Water)	Water & Wastewater
United Utilities	Water & Wastewater
Yorkshire Water	Water & Wastewater
Wessex Water	Water & Wastewater
Affinity Water	Water
Bristol Water	Water
Portsmouth Water	Water
South East Water	Water
South Staffordshire Water	Water
Sutton & East Surrey	Water