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Municipal trading then and now: a foundational perspective

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Municipal trading then and now: a foundational perspective

Introduction

Municipal trading is a term widely used in the UK in the pre-1914 period[1] to cover many of the activities of local authorities above and beyond directly providing goods and services from local or central government grants. Classically, it involves setting up a wholly owned trading company to undertake a specific commercial activity which has its own revenue stream. Our concern in this report is with UK municipal trading in the period 1850-1939 and UK municipal trading now in the 2010s and 2020s.

Municipal trading in the 19th century and early 20th century is a foundational story because it was based on large-scale municipal provision of essential goods and services -principally the pipe and cable utilities of water, gas and electricity plus public transport in the form of tramways. The municipality was central to the Foundational Economy 1.0 (FE 1.0) period when new technologies made urban life safe and civilised.

It was diminished and marginalised by two developments in the UK. First, nationalisation after 1945 along with technical change. ended municipal provision of gas and electricity just as diesel buses were displacing the tramway. Second, privatisation and outsourcing after the 1980s further diminished possibilities of municipal trading as the pipe and cable utilities with revenue streams were handed to private providers and many other council provided services went to outsourcing conglomerates.

But what we see now is a revival of municipalism across a diverse range of activities. This has gone further in mainland Europe where remunicipalisation of water and gas is possible. In the UK, municipalities are effectively excluded from most areas of new or old foundational provision. In the UK, remunicipalisation is instead expanding from a small base in diverse activities. This is illustrated in our report by considering four cases of English local authority activity: (1) insourcing of services in Liverpool, (2) energy retailing in Bristol, (3) property investment for income in Spelthorne and (4) airports operation in Greater Manchester.

Municipal trading is immediately of accounting interest because wholly owned trading companies have their own balance sheet, profit and loss and cashflow statements. Then and now, the financial consequences of trading business models can be analysed. Narrowly we can ask whether trading activities are a supplement to council tax and business rate income or a drain on ratepayers; and, if trading is a financial burden, are there compensating externalities?

[1] See e.g., *House of Commons Debate*, *01 April 1903*, *vol. 120 cc794-821*. https://api.parliament.uk/historic-hansard/commons/1903/apr/01/municipal-trading

Hence the structure of this report in four parts:

(1) A review of 19th century municipalism to identify the conditions of its success and the points of vulnerability in the municipal provision of foundational essentials in the FE 1.0 period.

(2) Overview of the revived early 21st century municipalism now in diverse activities because the old foundational essentials of the FE 1.0 period before 1945 and the new foundational essentials of the FE 2.0 period in the 2020s are both beyond reach.

(3) Four cases of English local authority trading in the 2020s which illustrate the difficulties of municipalism now under current conditions, in activities where breakeven or cash generation is challenging, and also where profits bring dangers of getting drawn into the financialised capitalist mainstream.

(4) The final section concludes that municipal trading can work to meet financial and social objectives, but only under favourable conditions in specific cash generative activities with predictable revenue streams. Remunicipalisation would be greatly helped if the UK national legislative framework was changed so that municipalities could move into the cash generative provision of new foundational essentials like electric car charging points or fibre optic networks.

1. Municipal trading 1880-1940: a foundational ecosystem

In the period beween 1880 and 1940 in the UK there was a substantial expansion of muncipal trading companies providing the foundational essentials of the time which, from the late 19th century, made urban life safe and civilised. The main areas of service provision involved new municipal companies from 1850 providing the pipe and cable utilities of town gas, water (and sewage plus in the 1900-14 period new companies generating and distributing electricity and providing public transport in the form of tramways.

Practically, municipal provision of utility services was extensive but never universal. By 1910, for example, there were 298 gas plants operated by municipal undertakings[2] , Birmingham, Manchester and several other large cities had municipal gas, but the provision of town gas in London remained in the hands of private companies and municipal undertakings never accounted for much more than one third of gas supply The municipal share of the new electrical utilities of the 1900s was larger with municipal electricity companies accounting for more than half of electricity units distributed and two thirds or more of tramcar miles .

[2] Thomas, R. (2021), A history of the gas industry in Birmingham, National Grid. https://www.nationalgas.com/document/134656/download

Table 1: Local authority percentage share of supply by all undertakings[3]

	Share of undertakings supply (Cubic feet) Gas supply %	Share of car miles Tramways %	Share of miles run Trolley Buses %	Share of units Electricity %
1885	33	65	n/a	54 (in 1900-1)
1937	36	94	83	64

The argument of this section is that this provision amounted to an economically and politically stable foundational ecosystem because of period specific conditions of success within a framework of supply and demand. On the supply side, the precondition was territorial monopoly which in the case of utilities was effectively guaranteed by Act of Parliament, so the local authority (or more exactly its corporate subsidiary) was sole provider for residents within its area. On the demand side, financial stability was in built because pipe and cable utility demand is stable and non-cyclical with revenues which are more or less a fixed and direct *lien* on household income.

Utility and tramway provision did not come cheap, and the capital expenditure was debt financed. Local Authority loans outstanding for water, gas electricity and trams in 1885/6 amounted to £45.3mill and in 1915 loan stock outstanding had increased to £223.8 million[4]. Overall, municipal debt raised for all purposes increased from £193 million in 1883 to £469 million in 1904[5]. The debt was raised on favourable terms because municipalities could raise money more cheaply than private utility companies but, nevertheless, the cost was considerable.

Cost recovery and profitability then depended on the capital intensity of the activity. Water undertakings were the most capital intensive especially for growing conurbations like Manchester and Birmingham. By the 1890s Manchester was piping water from Thirlmere in the Lake District and Birmingham was building its reservoir in the Elan Valley of Mid-Wales. Debt outstanding for the provision of municipal water accounted for 60% or more of all municipal trading company debt before 1914 and on the eve of World War One, £131 million had been borrowed for municipal water compared with just £23 million for gas[6].

In this context, the pre-1914 contrast is between gas which could easily be standalone profitable and water where pricing to recover cost was challenging and profit was explicitly

[3] Finer, H. (1941), *Municipal Trading a Study in Public Administration*, George Allen & Unwin, pages 52, 54 and 58.
[4] Falkus, M. (1977), 'The Development of Municipal Trading in the Nineteenth Century', *Business History*, 19:2, 134-161. DOI: 10.1080/00076797700000023
[5] Lord Avebury, (1906), *On Municipal Trading*, MacMillan and Co., New York. https://archive.org/details/onmunicipalnatio00lubbuoft/page/n7/mode/2up?ref=ol&view=theater
[6] Finer, H. (1941), *Municipal Trading a Study in Public Administration*, George Allen & Unwin, p.20.

never a key objective. In Birmingham, for example, both gas and water were municipalised in the 1870s. The mayor, Jo Chamberlain then argued that "whereas there should be a profit made on the gas undertaking, a water works should never be a source of profit, as all profit should go into reducing the price of water"[7]. Birmingham gas made twice the predicted profit in its first year and then continued profitable despite price cuts to benefit consumers so that a surplus could be applied to sanitary reform and an art gallery[8]. Clean water was identified as an absolute foundational necessity so that, as Gehrke argues, in Birmingham water "concern for overall health and wellbeing trumped financial concerns"[9].

This was because piped clean water and then copious supplies of cheap water had huge public health benefits. When Birmingham municipalised water in the 1870s, nearly half the city's population was dependent on water carts or often contaminated urban wells[10]. In 1891 with Manchester's increased water supply from the Thirlmere reservoir, the Corporation could immediately mandate water closets in all new buildings and within the decade turn to encouraging their retrofitting in existing building stock[11]. The municipal provision of tramways in the 1900s was again as much social policy as service provision. The London County Council developed electric tramlines after 1903 partly with the aim of enabling a dispersal of population from the overcrowded city centre into the suburbs[12].

More broadly, as Coombs and Edwards note, when municipal undertakings did break even, the ratepayers 'dividend' was the local availability, at a reasonable price, of services needed to improve living standards[13]. These externalities (not captured in the accounts of municipal undertakings) close the circle of territorial monopoly and underpin the political stability of municipal provision in a largely market economy. Local households through rates and utility bills are liable for servicing the debt that finances capital investment in gas works, reservoirs and tramways; but local households as consumers then benefit from the services that enable liveability.

Active municipalities benefited from running a portfolio of enterprises with different activity characteristics which reduced risk by diversification and created possibilities of cross subsidy. But the stereotype of "gas and water socialism" is misleading insofar as it suggests that monopoly provision of foundational necessities could produce large profits which could be applied to other purposes from municipal baths to urban renewal. In Birmingham, for example, the rebuilding of the city centre proceeded slowly through the 1880s and 1890s and was financed with borrowed money not gas profits[14]. At national level, Finer calculated the

[7] Briggs, A. (1965), *Victorian Cities*, Harper Row, p.227.
[8] Gehrke, J. (2016), 'A Radical Endeavor: Joseph Chamberlain and the Emergence of Municipal Socialism in Birmingham', *American Journal of Economics and Sociology*, vol. 75. p. 31.
[9] Gehrke, J. (2016), p.33.
[10] Reigeluth, G. (1981), '*Municipal Reform in Birmingham, England: 1873–1876'*. Ph.D. diss., Johns Hopkins, p.195 (cited by Gehrke).
[11] Manchester Courier, (1891), 'Manchester Corporation Bill', 2 July 1891, p.8 and 30 April 1898 p.15.
[12] Green, O., Taylor, S. (2001), *The moving metropolis: London's transport since 1800*, Laurence King.
[13] Coombs, H. and Edwards, J. (1992), *Local Authority Accounting Methods: Problems and Solutions, 1909–1934*, Garland Publishing, p.200.
[14] Vinen, R. (2022), Second City: *Birmingham and the Forging of Modern Britain*, Allen Lane, pp.98-9.

overall net transfer from all municipal trading to and from the rate accounts for two years at the beginning and the end of the inter-war period. He found the overall transfer was negligible or negative mainly because water companies were being subvented from the rates[15].

Table 2: Net transfers to or from rate accounts as percentages of total trading receipts[16]

	1919-1029	1936-1937
Water	-15.7	-4.3
Gas	0.7	0.4
Electricity	0.8	1.1
Transport	2.5	0.4
Net of all Services	-0.9	negligible

The expense of the first-generation provision of foundational necessities was increased because in many cases municipal provision was established by buying out private gas and water companies and their goodwill on favourable terms. This lesson was learned so that the Tramways Act and Electric Lighting Acts gave a leading role to local authorities as first providers of new technologies after the 1890s[17]. But technological change then cut both ways. Municipal gas suffered from internal competition of electricity supply from the 1900s; just as trams met competition from trolley buses and diesel buses from the 1930s. Nationalisation in the 1940s was partly driven by technical change as municipal electricity generation was supplanted by a national grid connecting large coal fired power stations.

With this proviso about technical change, nineteenth and early twentieth century municipalism should be understood as a stable ecosystem delivering the foundational essentials of the time. In financial terms, it combined low risk business models centred on the pipe and cable utilities where capital investment was lumpy and occasional, demand was stable, and revenues were highly predictable with pricing partly a matter of adjusting charges on households whose demand was price inelastic. The main risk was generational shifts in technology (as with motor buses and trams) which could usually be dealt with by halting reinvestment and managing decline. Finance did matter but the core of this ecosystem was not cash generation but break even in municipal trading accounts with externalities captured inside the local authority area.

[15] Finer, H. (1941), *Municipal Trading a Study in Public Administration, George Allen & Unwin*, pp.154-159.
[16] Finer, H. (1941*), Municipal Trading a Study in Public Administration*, George Allen & Unwin, p.156-7.
Note: The ehibit is a summary of the table presented in Finer (1941), pp.156-7.
[17] Falkus M. (1977), pp. 152-3.

2. Municipal trading now without a foundational stabiliser

The recent academic literature focuses on the politico-economic significance of remunicipalisation in terms of intentions and motives. One of the key questions in this literature is whether the new developments represent a break and harbinger of a more democratic new municipalism and/or defensive corporatisation by local authorities seeking new ways of delivering goods and services after austerity cuts?

Some have focused on remunicipalisation as a reaction to and reversal of the privatisation of public services and corporate rent seeking[18,19,20], and harbinger of a more democratic economy (Blyth 2013) including new transversal social movements. Re-municipalisation is here viewed as a new form of social, local and participatory urban governance arrangement that can restore public accountability and local state control[21] while strengthening beleaguered public authorities during a period of neoliberal driven austerity[22].

Others, like Cooper *et al*.[23] have cautioned against such interpretations and argued that much of the expansion of municipal trading might not be a countermovement but rather a pragmatic accommodation to maintaining services after neoliberalism and urban austerity. They argue that much of it can be adaptation when vital services have to be sustained even under neoliberalism. Establishing commercial arms-length organisations to deliver local authority (LA) services is then a form of 'corporatisation'. (Grossi and Reichard, 2008[24]), Even when well-motivated it can distance elected officials and operation of public services: offering anti-democratic opportunities to avoid oversight and transparency, with complexity and a variety of constraints in place.[25]

Practically, as Cumbers and Becker[18] recognise, intentions and corporate vehicles are diverse. In some cases, re-municipalisation is about democratic alternatives. In a study of the US, Kim and Warner[26] emphasise the importance of pragmatic municipalism and claim that US re-

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[18] Cumbers, A. and Becker, S. (2018), 'Making sense of remunicipalisation: theoretical reflections on and political possibilities from Germany's Rekommumalisierung process', *Cambridge Journal of Regions, Economy and Society*, 11(3), pp. 503-517. doi:10.1093/cjres/rsy025.
[19] Kishimoto, S. and Petitjean, O. (2017), *Reclaiming Public Services: How Cities and Citizens are Turning Back Privatisation*, Transnational Institute.
[20] Kishimoto, S., Lobina, E., Petitjean, O. (eds.), (2015), *Our public water future: The global experience with remunicipalisation*, TNI, Multinational Observatory and PSIRU.
[21] Cumbers, A. and Becker, S. (2018)), 'Making sense of remunicipalisation: theoretical reflections on and political possibilities from Germany's Rekommumalisierung process', *Cambridge Journal of Regions, Economy and Society*, 11(3), pp. 503-517. doi:10.1093/cjres/rsy025.
[22] Blyth, M. (2013), *Austerity: The History of a Dangerous Idea*. Oxford: Oxford University Press.
[23] Cooper, C., Tweedie, J., Andrew, J. & Baker, M. (2021), 'From "business-like" to businesses: Agencification, corporatisation, and civil service reform under the Thatcher administration', *Public Administration*, 100:2, pp. 193-215.
[24] Grossi, G. and Reichard, C. (2008), Municipal corporatization in Germany and Italy, Public Management Review, 10:5, 597-617. DOI: 10.1080/14719030802264275
[25] This paper uses the term municipal trading to cover both the 're' part and the new ventures. Also relates to Cumbers and Becker grouping of reversed privatisations and 'new forms of public enterprise created at the local level' including hybrid forms of ownership and organisation.
[26] Kim, Y. and Warner, M. (2021), 'Pragmatic municipalism or austerity urbanism? Understanding local government responses to fiscal stress', *Local Government Studies*, 47(2), pp. 234-252.

municipalisation is mostly pragmatic market management not a political project[27]. Though Warner and Clifton[28] note the greater importance in Europe of movements which assert citizens' rights and democratic control. Voorn *et al*.[29], in a meta study of countries and sectors found that 22 of 25 studies emphasise pragmatic reasons for re-municipalisation (for example, cost savings).

If there is no unifying ideology of municipalisation or remunicipalisation in practice, foundational analysis shifts attention from motives to the question of the activity sphere of remunicipalisation and (re) remunicipalisation, and the question of whether financial viability and the broader 19th century conditions of success can be replicated, The first and most important point here is that in the UK there are political blocks on the remunicipalisation of the old pipe and cable utilities which in origin date back to the 19th century and the FE 1.0 period. While at the same time there are blocks on provision of new 21st century essentials like fibre broadband or electric vehicle charging points which will be important in the new FE 2.0 period.

In Germany and France remunicipalisation of these pipe and cable utilities is possible and in France remunicipalisation of water has taken place within a bi-partisan political framework. The result after the 1990s was a considerable shift towards remunicipalisation in the French water sector and also in the German energy sector[30]. In 2019 100 French cities, 20 Spanish cities and 17 German cities directly supplied their water services[31] . But the UK has privatised the essential services of water, gas and electricity with direct revenue streams from households and the privatised utilities. So these utilities are beyond the reach of any municipality in the UK polity where national government protects the property rights of private pipe and cable utility providers. What UK municipalities can do is trade within the area of mundane services. This covers spinning out services like school meals into wholly owned companies or taking back mundane services like refuse collection from outsourcers.

But if the political blocks on remunicipalisation of the old utilities were removed, much UK provision would need to be organised on a regional basis even in activities like electricity where much greater local production is possible. More generally, while remunicipalisation may be politically attractive insofar as it ends extraction and poor service by private funds or corporates it can also be financially unattractive insofar as it involves buying the consequences of extraction and underinvestment by private providers.

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[27] Warner, M. and Aldag, A. (2021), 'Re-municipalization in the US: a pragmatic response to contracting', *Journal of Economic Policy Reform*, 24:3, 319-332. DOI: 10.1080/17487870.2019.1646133

[28] Warner, M. and Clifton, J. (2014), 'Marketisation, public services and the city: the potential for Polanyian counter movements', *Cambridge Journal of Regions, Economy and Society*, 7:1, pp. 45–61. DOI: https://doi.org/10.1093/cjres/rst028

[29] Voorn, B. (2021), 'Debate: Shadow government—A note for European corporatization research', *Public Money & Management*, 41:7, pp. 561-562. DOI: 10.1080/09540962.2021.1927340.

[30] Hall. D. and Lobina E. (2013), 'Remunicipalization in the early 21st Century'. *International Review of Applied Economics*, Vol. 27, No. 3, March.

[31] Turri, V.M. (2022), 'Understanding European drinking water services remunicipalization' *Cities*, Vol. 120, January, p.5.

In this case, the purchaser is buying not just the operation but the balance sheet which may have been stripped of assets and burdened with liabilities like new debt and old defined benefit (DB) pension schemes. If capital investment has been rationed, the business may also immediately need another round of capital investment. And this is not hypothetical if we remember that in the case of English water companies, by 2020 ineffectual regulation has allowed them to distribute £50 billion of profits as the companies financed investment by loading their balance sheets with £47 billion of debt while at the same time, underinvesting in stopping leakages and sewerage discharges[32].

For this reason, it would be hugely beneficial if municipalities could run the cash generative infrastructure of new 21st century essentials like fibre cable for broadband and charging stations for battery electric vehicles. But since the merger of NTL and Telewest in 2006 (and their subsequent rebranding as Virgin Media) the UK network for cable TV has been in the hands of one national operator; and fibre to the premises for broadband is being nationally rolled out by BT Openreach, in part subsidised by the state as an incentive to lay infrastructure in remote areas. Municipal provision of electric vehicle charging points is not on anybody's political agenda in England and Wales despite anarchic under provision by a multiplicity of private operators. Private provision has become the more or less unchallenged default for new utilities.

If local authorities are effectively excluded from providing most old or new foundational essentials, the paradox is that they have considerable borrowing powers and laissez faire freedom of action to trade granted by the UK Local Government Act of 2003[33] and the 2011 Localism Act[34] building on the 1999 the Teckal Judgment (C-107/98) in the European Court of Justice (ECJ)[35]. After 2011 local authorities had the General Power of Competence (GPC) to trade when exercised through a separate company; local authorities did not have to identify a statutory or existing function upon which to 'hang' their trading activity; and could trade outside their area, anywhere in the UK.

Because their foundational sphere of activity is restricted, municipal developments so far are prefigurative and expanding from a small base. Murphy *et al.*[36], find that the number of companies set up by Local Authorities in England increased from 440 to 600 over the period 2010/11 to 2016/17 and those limited by shares (and especially wholly owned companies) increased by over 50% from under 200 in 2010/11 to over 300 in 2016/17[37]. In England, there are 333 councils if we include metropolitan districts, London boroughs, unitary authorities,

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[32] University of Greenwich, (2020), 'Privatised water: a system in need of repair?', Press release, , 16th June. Privatised water: a system in need of repair? | News | University of Greenwich

[33] UK Government, (2003), 'Local Government Act 2003'. Borrowing, lending and investment - Scottish Public Finance Manual - gov.scot (www.gov.scot) https://www.legislation.gov.uk/ukpga/2003/26/contents/enacted

[34] Local Government Association, (2012), Empowering communities: making the most of local assets, LGA, October. https://www.local.gov.uk/sites/default/files/documents/empowering-communities-ma-dd2.pdf

[35] Thomson Reuters, (2008), 'Applying the Teckal exemption' Public Sector blog. http://publicsectorblog.practicallaw.com/applying-the-teckal-exemption/

[36] Murphy, P., Ferry, L., Glennon, R. and Greenhalgh, K. (2019), *Public service accountability: rekindling a debate*., Palgrave Macmillan.

[37] Murphy *et al*., (2019), p.479.

county and district councils. So, in the late 2010s, there were no more than two trading companies for each council.

The trading activities undertaken in the new municipalism are confusingly diverse and that is illustrated in this report by considering four different cases.

- Much of the expansion consists of provision of local goods and services through reversal of outsourcing or starting new ventures for residents within one local authority area. Hence, we consider the case of *Liverpool Streetscene* where Liverpool City Council insourced and took back street cleaning, waste disposal and highway maintenance from outsourcers; and then another case of *Bristol Energy* where the Bristol City Council set up a new venture to provide cheap gas and electricity for residents.

- Some of the provision involves trading outside the local authority area with the more ambitious aim pf capturing profits that supplement local authority revenue from council tax and business rates. Hence, we consider the case of *Spelthorne Borough Council* which borrowed to build up a £ 1 billion portfolio of commercial property mainly outside the borough; and then another case of how municipally owned *Manchester Airpor*t morphed into Manchester Airport Group which also owned East Midland and Stansted airports.

The four cases are in no sense a representative sample. That is not the aim. But they do cast light on the issue of whether, when and how pragmatic or ideological remunicipalisation can in the early twentieth century find a financially viable business model for delivering services and / or generating cash to supplement council revenues. Financial viability is the key precondition of the political success and economic sustainability of any kind of municipal trading. These issues are explored by examining the conditions of financial viability in each of the four recent cases, where we consider the influence of three specific variables.

(1) *Activity:* is there an activity sweet spot for municipal trading where cost recovery is straight forward? And conversely are there activities best avoided because capital requirements are large, or returns are uncertain?

(2) *Regulatory framework:* what are the consequences of regulatory frameworks around trading, like fair value accounting under IAS19 or Whitehall's capital borrowing framework for local authorities? These will usually be unintended consequences of frameworks never designed to facilitate or control local authority trading.

(3) *Management control and governance:* In the case of wholly owned trading companies, can local authorities install capable management and then can officers and councillors exercise a supervisory governance function? Governance becomes more important as activities become more risky.

Case 1: Liverpool Streetscene Services/ mundane services

Remunicipalisation of mundane services (like street maintenance and refuse collection) is generally part of an attempt to deliver better services and a rebalancing of stakeholder priorities; and usually comes after an experiment in outsourcing which In Liverpool and elsewhere is justifiably seen to have failed. The Liverpool Streetscene Services Limited (LSSL) business plan promised to replace outsourcing with a more flexible model, supported by workforce and trade unions, with resources targeted and deployed to where they were required rather than being dictated by a rigid structure and timetable'[38]. In effect, the Council was setting up an arm's length (not for profit) contractor whose revenue for its mundane but essential services would come from the council budget (and thus indirectly from central government grants and tax paying Liverpool households and businesses).

Liverpool City Council (LCC) established Liverpool Street Scene Ltd[39] in 2015 'to deliver a number of essential services across the city of Liverpool including refuse and recycling, street cleansing and grounds maintenance' exploiting Teckal legislation provisions. In 2018 Liverpool City Council awarded contracts to LSSL for highways cleaning after the outsourcing contract with Amey Ltd was terminated by mutual agreement. Later, in October 2018 the contract for parks, gardens and cemeteries maintenance also awarded to LSSL. Termination of contract was straight forward as services like street cleaning or parks maintenance were labour intensive and asset light.

The aim was to run these mundane services for break even, cost reductions through efficiencies would cover reduced contract prices in 2019 and 2020 and the declared objective for the financial years 2018 to 2020 was to break even (LLSL Business Plan 2018-23:29)[40]. When LLSL lost money in the run up to the financial year 2018, the explanation was that these were initial costs related to the set-up of the company, "but we are confident it will break even and not cost the council money going forward"[41].

The objective of breakeven was met after a wobbly beginning. Over the period 2015 to 2022, table 1 shows that purchases or external costs account for 41 percent of turnover and then employee costs account for nearly 59% percent of turnover. As table 1 shows, in net terms the result is an average positive cash margin of 0.1 percent.

[38] Liverpool Streetscene Services Limited, (undated), 'Business Plan 2018 – 2023, p.3. https://liverpool.gov.uk/media/1357200/lssl-business-plan-final-version-2018-2023.pdf
[39] Liverpool Streetscene Services Limited, website. https://liverpool.gov.uk/business/liverpool-streetscene-services-ltd/
[40] Liverpool Streetscene Services Limited, (undated), 'Business Plan 2018 – 2023', p.29. https://liverpool.gov.uk/media/1357200/lssl-business-plan-final-version-2018-2023.pdf
[41] Doherty, J. (2018), 'Liverpool hails move in-house 'a success'', Letsrecycle.com, 10 July. https://www.letsrecycle.com/news/latest-news/liverpool-in-house-success/

Table 3: Key operating ratios for Liverpool Streetscene Services, 2015 to 2022[42]

	Average %
Average external costs in turnover	41.1
Average employee costs in turnover	58.8
Average cash margin	0.1

The problem is in the company balance sheet where the shareholder equity is consistently negative. With remunicipalisation, Liverpool City Council acquired the assets and liabilities of the ongoing businesses. The assets in the form of depots and such like were modest but the liabilities, including a Defined Benefit (DB) pension scheme, were onerous and inescapable because of TUPE transfer arrangements. Liverpool Streetscene Services reports an ongoing large net liability on the companies DB pension scheme. On a mark to market basis this varied between £10.7 and £14.8 million, depending on fluctuations in valuation, between 2020 and 2022 in a company whose turnover in 2022 was no more than £42 million.

Table 4: The level of shareholder equity and pension liability in Liverpool Streetscene Services[43]

	Shareholder Equity £mill	Pension Liability £mill
2015	-1.1	0
2016	-1.1	0
2017	-2.9	0
2018	-10.3	-7.3
2019	-11.6	-8.6
2020	-13.9	-14.8
2021	-17.8	-14.3
2022	-14.1	-10.7

Thus, the running of Liverpool's mundane public services is complicated by fair value accounting rules for "employee benefits" under International Accounting Standard 19 (IAS19) which requires recognition of pension fund deficits at current values although liabilities to pensioners are distant and long term. Annual gains and losses are then recognised in the

[42] Annual report and accounts, Companies House. https://find-and-update.company-information.service.gov.uk/company/04161448/filing-history
[43] Annual report and accounts, Companies House. https://find-and-update.company-information.service.gov.uk/company/04161448/filing-history

income statement and if the liabilities exceed assets this is shown as a net liability in the company balance sheet.

The problems created by these accounting rules, were in Liverpool Streetscene Services, compounded by failures of management control and governance. New contracts brought increasing responsibilities for service delivery which were beyond the limited capability of LSSL company managers. On the transfer of highways maintenance to LSSL, the 'Liverpool City Council Best Value Inspection'[44] in 2021 concluded that 'there is no evidence that senior managers understood the risks to the service or what resources, structures, processes, or procedures should be put in place to ensure a good service could be delivered'. If management was weak, governance by the Council was crucial but that was woefully inadequate.

The 'Liverpool City Council Best Value Inspection' noted that Liverpool City Council (LCC) together with LSSL had not signed off a shareholder agreement and thus the Council had no appointed representative at Board meetings of its wholly owned trading company and no oversight of the LSSL business plan. The conclusion was that the Council "appears not to set financial targets nor to require compliance with key elements of LCC activity which would deliver value for money" (LCC Best Value report, 2021:23)[45]. Instead, the LSSL company was caught in a network of patronage and clientism because "it was possible for Councillors with no apparent role in the management of LSSL to intervene in its HR practices [and] it is therefore hard to see if this operation is truly being operated as a company"[46].

On mundane services, the easy bit is taking back the contract from an outsourcer, the difficult bit is delivering on the "high performing", "environmentally sustainable" company that is the LSSSL vision[47]. These businesses may be mundane, but they are operationally challenging, and the difficulties are compounded by the requirement to recognise pension liabilities under IAS 19. This is ironic but also unfair because when businesses were privatized or outsourced, the operating business was often separated from its liabilities. Those engaged in remunicipalisation have no such luck. If there are DB pension liabilities, the on-going cost of insourcing is likely to be irregular monetary top ups to cover pension fund liabilities. If management and governance are weak, the controllable costs of insourcing are not being effectively managed and that must increase the cost of replacing the outsourcing conglomerates.

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[44] Caller, M. (2021), 'Liverpool City Council Best Value Inspection -December 2020-March 2021', The Secretary of State for Housing, Communities and Local Government.
[45] Caller, M. (2021), 'Liverpool City Council Best Value Inspection -December 2020-March 2021', The Secretary of State for Housing, Communities and Local Government, p.23.
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/976197/Liverpool_Best_Value_inspection_report.pdf
[46] Caller, M. (2021), 'Liverpool City Council Best Value Inspection -December 2020-March 2021', The Secretary of State for Housing, Communities and Local Government, p.23.
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/976197/Liverpool_Best_Value_inspection_report.pdf
[47] Liverpool Streetscene Services website, 'Vision and values'.
https://liverpoolstreetscene.co.uk/about/visions-and-values/

Case 2: Bristol Energy/ intermediation

Bristol Energy was a municipally owned energy supply company, founded in September 2015 by Bristol Council. The original decision, in principle in 2010, had envisaged the creation of an energy services company and a supply company. In the event only the supply company was created and that was an intermediary with no generating capacity because it sold retail electricity to consumers which it bought in the wholesale market. Thus Bristol Energy occupied a niche position in the privatised and financialised electricity industry and was always very different from an early 20th century municipal electricity company which would typically be vertically integrated so that it generated and distributed its own electricity.

The project had worthy social aims of supplying green renewable energy at lower prices for local households and at the same time turning a profit for the Council. In 2016 at the launch of 'My Bristol Tariff', Bristol Mayor Marvin Rees claimed that: "the Council set up Bristol Energy to help people pay less for their gas and electricity"[48]. In 2015 the Council had been promised "a new revenue stream for the Council to reinvest into the City" because "almost all modelled scenarios show that Bristol Energy becomes profitable within five years and only shows a cumulative loss after five years in the 'disaster' scenario" [49].

This was always optimistic because energy intermediation is inherently a high-risk activity where profit easily becomes loss. The margin comes from selling electricity or gas to retail consumers on a fixed price contract for up to a year ahead before that energy is bought in wholesale energy markets where the spot price constantly varies. Wildly fluctuating prices and consequently profit margins can only be avoided by hedging to cap profits and losses (as Bristol energy claimed it was doing). Hedging is a form of insurance which in most cases costs money. External factors like the weather add complications as cold winters add to margin pressure if suppliers have to buy energy 'short' in the market to make up demand.

Bristol Energy joined other new entrants as the number of energy suppliers in the UK doubled from 2015-17. The energy regulator Ofgem was encouraging competitors to the big 6 suppliers with very few requirements about balance sheet resources or prudent hedging strategies. Problems were revealed when many of the new entrants collapsed in 2021 following a sixfold increase in energy prices[50]. Bristol Energy was in dire trouble well before this point. The Council made an original investment of £15.7m and then covered operating losses so that by the financial year ended 2020, shareholder funds are negative £40 million. This roughly equals the total sum lost by the Council in a disastrous venture[51].

Part of the Bristol Energy problem was that it did not operate with a territorial monopoly. Instead it operated in a small, contested market in Bristol. Nationally, in 2016 up to 3/4 of

[48] Bristol Energy, (2016), 'Bristol Energy My Bristol Tariff' 29 September. https://www.bristol-energy.co.uk/bristol-energy-launches-my-bristol-tariff

[49] Bristol City Council, (2015), Minutes, 6th July 2015.

[50] Comptroller and Auditor General, (2022), 'The energy supplier market', National Audit Office. https://www.nao.org.uk/wp-content/uploads/2022/03/The-energy-supplier-market.pdf

[51] Cameron, A. (2021), 'Total amount Bristol City Council sunk into Bristol Energy finally revealed', Bristol Post, 11 February. https://www.bristolpost.co.uk/news/bristol-news/total-amount-bristol-city-council-4990160

energy consumers did not switch gas or electricity supplier [52] and those who chose to switch could choose another one of the many new entrants who were offering low prices. The only way that Bristol Energy could build volume to cover overhead was to offer energy deals to non-locals (as Nottingham's municipal Robin Hood energy did). But, if Bristol Energy had followed a non-territorial strategy, then Bristol ratepayers would have been liable for any losses on selling energy outside the city.

Bristol chose a territorial strategy and then the overhead expense of acquiring a small number of local customers ruined any prospect of profitability and led to large operating loss despite revenues increasing to reach £102 million in 2020. Over 2016-20 the cost of goods sold (wholesale energy purchases) accounts for 92% of revenues from retail consumers. But the overhead expense of acquiring and managing customers equates to 26% of sales revenues over the same period. Operating losses of more than £10 million a year accumulate and erode the shareholder equity in the balance sheet. Consequently, Bristol City Council and ultimately the ratepayers had to inject further capital into the business.

Table 5: Bristol Energy key operating financials 2016 to 2021[53]

	Revenue £mill	Cost of Goods Sold £mill	Admin Expenses £mill	Operating profits £mill	Net Income £mill	Total Shareholder Equity £mill
2016	0.1	0.1	3.2	-3.2	-2.9	-2.9
2017	13.6	13.0	6.9	-8.9	-8.6	-7.4
2018	52.5	46.9	13.9	-10.2	-11.2	-16.9
2019	76.1	72.5	16.3	-10.6	-12.1	-27.4
2020	102.2	93.5	21.9	-13.2	-14.8	-40.3
2021	32.9	32.2	9.8	3.0	1.0	-36.5
Totals	277.4	258.2	72.0	-43.1	-48.6	-36.5

Some 121,000 households in Bristol are estimated to have switched to Bristol Energy whose website in 2016 claimed the 'My Bristol Tariff' could save customers (on average) around £240 per year if they switched[54]. Given that Bristol Energy lost money over the period 2016 to 2020, any saving by households was, in effect, a subvention funded by council ratepayers. Table 6 calculates the funds paid by Bristol City Council to Bristol Energy at £37million over

[52] Ofgem, (2023), Retail Market Indicators. Retail market indicators | Ofgem
[53] Source: Annual report and accounts, Companies House. https://find-and-update.company-information.service.gov.uk/company/09135084/filing-history
[54] Bristol Energy, (2016), 'Bristol energy launches My Bristol tariff' (29 September). https://www.bristol-energy.co.uk/bristol-energy-launches-my-bristol-tariff

the period 2016 to 2020, which represents a ratepayer subvention of roughly £220 per meter installed.

Table 6: Funding provided by Bristol Council 2016 to 2020 and funding per meter installed[55]

(Funding provided by Bristol City Council 2016 to 2021 and funding per meter installed)

	Value	Note
Paid in capital	£9.2m	
Debt from parent	£27.3m	1
Amounts owing to group companies	£5.5m	
Capital Contribution	£2.7m	2
Interest paid	-£6.9m	3
Net Funds paid in	£37.8m	
No. of meter points	168,000	
Net funding per meter £	£225	

All this represents a failure of governance and management control stemming from emotional commitment to the idea of a municipal energy company which would do social good. Ordinary councillors were not *ex ante* equipped to understand or evaluate the fragility of the energy intermediary business model nor the high levels of risk involved. Instead, at a council meeting in July 2015[56] they were assured that PriceWaterhouseCoopers (PWC) consultancy had reviewed the Bristol Energy business plan and endorsed the plan's market assumptions and financial projections which indicated a rate of return of 12% at year 5 and 30% at year ten.

PWC also approved the governance arrangements which should have (but did not) stop the losses several years before early 2021. But the deficiencies of governance were only discovered late in the day after large losses had accumulated. At a Bristol City Council meeting held in May 2020 councillors complained in a motion that "all major decisions relating to Bristol Energy are being taken behind a legal cloak of commercial confidentiality"[57] so that scrutiny of (and accountability for) the venture was limited.

[55] Source: Annual report and accounts, Companies House. https://find-and-update.company-information.service.gov.uk/company/09135084/filing-history Notes: 1. This is 7% preference share capital provided by Bristol Council. 2. An additional capital contribution from Bristol Council in financial year ended 31st March 2021. 3. Interest paid is interest on preference share capital

[56] Edrich, W. (2015), 'Establishment and trading of an Energy and Technology company', Bristol City Council Cabinet Agenda, 6 July. https://democracy.bristol.gov.uk/Data/Cabinet/201507061800/Agenda/0706_6.pdf

[57] Bristol Council (2020) Motion at Extraordinary Meeting, 26 May. https://www.youtube.com/watch?v=HZWSRrV-tlo

Case 3: Spelthorne Borough Council/ levered arbitrage

The Spelthorne Borough Council story is not about social values of a large left-leaning municipality but the entrepreneurial values of a small right-wing borough council in Surrey which aimed to generate investment income from commercial property to replace the income lost through austerity cuts by central government to local authority grants after 2010. As the former Council leader explained “given the very stringent cuts we were facing from 2014 to 2018, we needed to do what we could to protect our residents"[58]

Spelthorne Borough Council borrowed the money which it invested in commercial property. So, the council’s activity was not investment but levered arbitrage gains on the margin between borrowing from the Public Works Loan Board (PWLB) at just over 2% and the projected rental income stream of between 5% to 6 % on the commercial property it invested in. As the Council website explained, “We are taking advantage of low-cost government finance in order to buy investment assets which will generate an income stream. The income generated is more than the financing costs and we are using this surplus to maintain Council services and build housing[59].

Arbitrage trades mostly yield small margins and are only worthwhile if large amounts of capital are committed. Spelthorne Borough Council had to borrow £1 billion between 2016-18 to realise a target “net contribution” of £10 million a year by 2020[60] which would have represented a slim return of around 1% on capital. Arbitrage also works best in liquid financial markets where professional investors can enter profitable carry trades and exit unprofitable ones easily and at low cost. Spelthorne’s strategy meant the Council borrowed to invest in commercial property which is illiquid because it is not easily sold. Furthermore, commercial property capital values and rental yields are volatile, and the historical record is of boom and bust with national falls of around 20% in capital values after 2008 and 2019.

Excluding central government grants. Spelthorne raised £8.4 million from council tax and £26.4 million from business rates in 2021-22. Regardless of purpose, it was imprudent for Spelthorne Borough Council to borrow £1 billion given the Council’s small size and limited revenue resources. Yet, quite remarkably, borrowing on this scale was not restricted through formal regulation or oversight. The Ministry of Housing Communities and Local Government capital finance framework gave local authorities substantial discretion over capital spending and borrowing to support capital spending. A tighter capital finance framework was only proposed by the Ministry in 2021 after the abuses had been discovered in Spelthorne and elsewhere[61].

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[58] BBC News, (2020), ‘Speltthorne Borough Council’s £1 billion property spending prompts review’, (27 October). Spelthorne Borough Council's £1.1bn property spending prompts review - BBC News

[59] Spelthorne Borough Council website. https://www.spelthorne.gov.uk/article/18023/Property-investment-FAQs

[60] Spelthorne Borough Council, (2020), Statement of Accounts 2020, p.4. https://spelthorne.gov.uk/media/23068/Draft-Statement-of-Accounts-2019-20/pdf/SoA_2019-20_100920_update1.pdf?m=637353494717970000

[61] Ministry of Housing, Communities & Local Government, (2021), ‘Policy paper: Local authority capital finance framework: planned improvements’, 28 July. https://www.gov.uk/government/publications/local-authority-

Equally the borrowing was not questioned by the Public Works Loan Board even though it was the lender that accounted for 99% of the loans taken out. Subsequently, Spelthorne Borough Council "expressed its surprise at how easy the process for requesting PWLB funds were and that there is no requirement to demonstrate to PWLB the business case or any other form of underwriting for proposals prior to drawdown"[62]. In effect, PWLB loans were being offered with no questions asked for any local authority which correctly filled in the relevant paper work.

Spelthorne made these property investments on the explicit assumption that debt payments were fixed but rental income would increase steadily year by year. In a 2017 cabinet meeting the forecast was that debt interest would not increase above £8.3 million while rental income would increase gently every year[63]. This unrealistically and optimistically assumed the future would be like the past (minus any cyclicality) and this was quickly disproved by Covid related demands for rent rebates by commercial tenants. The co-working and shared workspace group, We Work, negotiated an 18-month rent deferral which cost the Council £4.5 million in the short term and used up more than one-third of the cash reserves Spelthorne Borough Council had set aside to cover variations in commercial rental income[64].

The investments are now grouped into a property fund whose managers reported a gross income yield of 4.59% on the current valuation in the 2021 report[65]. But the net return is much lower after allowing for interest on borrowing, operating costs and depreciation which in a local authority is secured by a sinking fund plus "minimum revenue provision" (MRP) designed to ensure that the council does not have outstanding debt on fully depreciated assets. The relevant figures from the Council's annual report for the year 2021-22 are presented in table 7 and show that, after allowing for all expenses, the net return on current valuation was no more than 1.2%.

capital-finance-framework-planned-improvements/local-authority-capital-finance-framework-planned-improvements

[62] Spelthorne Borough Council, (2020), Written evidence submitted by Spelthorne Borough Council to Parliament, May. https://committees.parliament.uk/writtenevidence/4209/pdf/

[63] Spelthorne Borough Council, (2017), Cabinet Meeting Minutes, Tuesday, 12 December.

[64] Davies, G. (2020), 'Council gives WeWork £4.5m rent holiday as Covid crush hits', The Bureau of Investigative Journalism, 25 June. https://www.thebureauinvestigates.com/stories/2020-06-25/spelthorne-council-gives-wework-4.5m-rent-holiday-as-covid-crunch-hits

[65] Spelthorne Borough Council, (2021), 'Spelthorne Borough Council Property Fund Asset Managers Report to 31 March 2021', p.7.
https://democracy.spelthorne.gov.uk/documents/s36466/ASSETS%20ANNUAL%20REPORT%202021-v5.pdf

Table 7: Spelthorne income and expenditures attached to investments and regeneration property[66]

	March 2022 £mill
Rental income from properties	50.609
Other income	2.740
Operating costs	-2.368
Minimum Revenue Provision (MRP)	-11.996
Interest on borrowing	-23.032
Sinking fund contributions	-6.090
Sinking fund usage	1.826
Set aside	-0.630
Net Total	11.369

The other complication is falling property values and the implications of impaired asset values under fair value accounting which requires mark to market. In the 5 years to 2022, the value of Spelthorne's 6 out of borough office investments fell from £560 to £490 million[67]. And by 2022 the value of Spelthorne's whole commercial property portfolio had fallen by £72.9 million using local benchmark valuation metrics from a peak of £989.3 million in 2019-20.

These property value impairments are a significant risk to Spelthorne's balance sheet financial viability because outstanding loans (liabilities) attached to the purchase of property investments remain to be paid off. When property asset valuations are impaired, and liabilities remain sticky the result is an asset/liability mismatch which reduces Spelthorne's reported net assets. In the annual report for the year end 31st March 2020 the balance sheet recorded net assets at £1.014million. Net assets were already very thin and when property impairments start to kick in in the financial accounts for year ended 31 March 2021, and 2022 net assets are reported as negative £23.196 and £19.165 million respectively.

With regards to reserves disclosed in the balance sheet these are recorded as a positive £19.165 million and made up of usable (£65.704 million) and unusable reserves (£84.869 million). The overall balance of reserves are 'unusable' and these reflect the accumulation of asset valuation impairments in addition to movements in pension funding. Unusable reserves

[66] Spelthorne Borough Council, (2022), 'Annual report and accounts year end 31st March 2022'. https://spelthorne.gov.uk/media/24415/Draft-Statement-of-Accounts-2020-21/pdf/Draft_Statement_of_Accounts2020-21.pdf?m=637586770917870000

[67] Hill, J. (2022), 'Value of Spelthorne's out of borough investments slides by £70m', Local Government Chronicle, 30 August. https://www.lgcplus.com/finance/value-of-spelthornes-out-of-borough-investments-slides-by-70m-30-08-2022/

will need to be funded in the future, even if it is over a long period, so increases in these balances show an increasing burden on future taxpayers.

The Covid pandemic raised questions about the long-term demand for Spelthorne's office property like the Sunbury campus where BP's lease expires in 2036. An additional cause for concern is that much of the property is outside the Spelthorne Borough and there was no conceivable use or amenity value to ratepaying residents. Spelthorne's largest single investment was its purchase of the BP campus in Sunbury which was within the Borough. But more than half the £1 billion was spent on investments for yield outside the Borough, including 6 major properties in Hillingdon, Slough and Reading[68].

The imprudent risk taking is explained by the council's over reliance on consultants, poor management control and inadequate internal governance. Spelthorne Borough Council engaged 68 different consultants between 2016 and 2022 and spent £8.3 million with its primary real estate advisers Cushman and Wakefield[63]. KPMG has refused to sign off the 2017-18 accounts as value for money because of concerns about the absence of a decision-making paper trail and the informal decision making by the then Council leader and his wife who became cabinet member for investments.

Case 4: Manchester airport/ territorial monopoly

Manchester airport originally opened in 1938 as an amenity for the Manchester conurbation and the region. Until 2012 it was wholly owned by the 10 Metropolitan Borough Councils of Greater Manchester, with Manchester City Council holding the largest stake. The airport remains majority municipal owned but since 1999 it has operated as an airport management company, trading as Manchester Airport Group, with ownership of several other airports, latterly including Stansted in Essex. This acquisition was funded in 2013 by bringing in a private fund, IFM Investors (owned by Australian pension funds). In return for a £1.5 billion investment, IFM gained a 35.5% stake in the group with a 50/50 division of voting rights between IFM and Manchester City Council.

The core business remains Manchester airport which is an unusual case in present day municipal trading in that it has an effective territorial monopoly as the dominant leisure airport in the North of England. With 22 million people living within a two-hour drive of the airport[69] Manchester airport has been the second or third busiest airport in the UK since the 1960s. Passenger numbers grew steadily to just under 30 million by 2019 and had recovered from Covid by 2023[70] .

It is therefore not surprising that (if we exclude the Covid pandemic) the expanding business of Manchester Airport and then MAG has been a steady source of dividends for the ten boroughs. But dividends extracted need to be related to the injection of equity and shareholder loans to cover facilities expansion which cannot be funded from retained

[68] Hill, J. (2022), *ibid*.
[69] Manchester Airports Group website. https://www.magairports.com/about-us/our-airports/
[70] Manchester Airports Group website. https://mediacentre.magairports.com/mag-serves-91-of-pre-pandemic-traffic-in-january-as-first-full-year-of-restriction-free-travel-begins/

earnings. Over the period 1987-2012, the total dividends paid to the borough councils amounted to £656 million or about £26 million per annum. But that is offset by more equity funding and shareholder loans from the Boroughs so that over 1987-2012, the net surplus available to the ten borough councils was some £50million or approximately £2milion a year.

Up to 2012, Manchester Airport was being run as a regional amenity not a cash cow, But the game changed in 2013 because IFM investors wants an income return on its investment. The larger operating business now includes Stansted as well as Manchester and East Midlands airports. As table shows, it is striking that a total of £1,203 million was paid out as dividends and interest to shareholders in 8 years after 2013 compared with £566 million paid out in the previous 8 years from 2005-12. At the same time, interest payments to non-shareholders jumped to £295 million in the period 2013-20 compared with £55 million in the earlier period.

Table 8: Dividends paid and net financing position of Manchester Airport 1987 to 2021[71]

	Manchester Airports PLC 2005-2017 (8 years)	Manchester Airports Holdings 2013-2020 (8 years)
Change in equity	0.0	112.5
Change in share premium	0.0	687.2
Change in total shareholder equity	0.0	799.7
Change in debt funding	190.0	2,125.4
of which: shareholder debt	190.0	439.0
Dividends	418.3	917.1
Estimated shareholder interest received	147.2	285.7
Shareholder dividends and interest received	565.5	1,202.8
Estimated interest on external funding	55.0	295.3
Change in shareholder equity and shareholder debt	190.0	1,238.7
Change in shareholder equity and all debt	190.0	2,925.1

However, the problem remains that retained earnings do not cover investment in expansion. This is clearly so during the period from 2013 to 2020 before Covid led to the distress calling up of £300 million of new equity capital in the year ending March 2021. Over the period 2013 to 2020 MAG's external debt to non-shareholders increased by £1.686 million and there was an increase of shareholder equity and loans (debt) of £1239 million (see table 8). When

[71] Annual report and accounts, Companies House.

shareholders received £1,203 million in interest and dividends over the period 2013 to 2020, the net funding position of shareholder-investors was negative £35 mill.

All this sets the issues of management control and governance of municipal trading enterprises in a different light. The pre-2012 problem is not that management cannot control Manchester airport or that council governance fails in its supervisory duty. The problem is that success in generating distributable profit from the activity encourages empire building by corporate managers inside the business and attracts fund investors outside the business. The outcome is that the MAG group of airports in and outside the Greater Manchester boroughs are being run for income and at the same time burdened with a growing weight of equity and debt and that liability falls, ultimately, on Manchester ratepayers.

Manchester airport has morphed from regional amenity has morphed into a national airport operating group in the financialised mainstream. The process began as early as 1999 with the purchase of Humberside airport, later discarded because small regional airports are sumps for money and management effort. Logically, the purchase of a larger airport required partnership with a private investor. Thus, MAG in 2009 tried unsuccessfully to buy Gatwick (the UK's second largest airport) in alliance with a Canadian pension fund[72]. In 2013 it successfully acquired Stansted in alliance with IFM and became a corporate operator of airports as tradeable assets with cash flow from retail concessions, parking charges and aircraft landing fees[73].

The business model is volume driven and its fragility was demonstrated in the Covid pandemic with air passenger traffic down by 90%. Dividends were cancelled in 2021 and key ratios deteriorated to the point that bond covenants were breached, triggering a need to obtain waivers on bond covenants for the financial year 2021-2[74]. Far from benefiting from the profits of Stansted and East Midlands airports, the ratepayers of the Manchester Boroughs were now on the hook for losses from operating airports which were not used by Greater Manchester holiday makers or business travellers.

MAG management projects everything will come good because passenger numbers will increase by come 59% or 15 million at Manchester Airport by 2050[75]. The downside is that a growing burden of equity and debt will have to be serviced in a world of short-term uncertainties about passenger numbers in the event of another pandemic or great power conflict. There are also long-term uncertainties about possible environmental restrictions on flying in a time of climate crisis when the emissions from a major airport are a global 'disamenity'. Ironically, the pre-2013 alignment of local municipal ownership with local

[72] Moore-Bridger, B. (2008), 'Manchester airport set to buy Gatwick after break-up', Evening Standard, 18 August. https://www.standard.co.uk/hp/front/manchester-airport-set-to-buy-gatwick-after-breakup-6819481.html

[73] Frankal, B. (2013), 'Why air passenger duty is significantly increasing costs at Manchester Airport', Manchester Evening News, 23 January. https://www.manchestereveningnews.co.uk/business/business-news/manchester-airports-group-acquired-stansted-1236655

[74] Manchester Airports Group, (2021), 'Investor presentation -Results for the year ended 31 March 2021', July. https://www.magairports.com/media/1718/mag-investor-presentation-fy21-vfinal2.pdf

[75] Giorgiadis, P. (2023) 'UK's top airports aim to fly 150 million more passengers a year' , Financial Times, 19 March. https://www.ft.com/content/52cdd536-103b-4db0-91c5-f1337be47baa

capture of private returns and social benefits from a regional amenity is much better suited to this world of uncertainties.

Discussion: how and why trading reach now exceeds grasp

Our retrospect on the 19th century municipal trading eco system focused our analysis of the conditions of success and failure. Here a large, financially viable and politically sustainable structure of municipal trading was built on the stable basis of provision of 19th century foundational essentials. Then or now, the provision of essential services was never a license to print money. But municipal trading is greatly helped if it can find a cash generative essential activity like town gas in the 19th century; and if there are local externalities from provision of other services like water in the 19th century where cost recovery is more problematic.

The dilemma of UK municipal trading in our time is that it is politically excluded from large scale local provision of old 19th century pipe and cable essentials and from new 21st century essentials like fibre broadband. If we want municipal trading, then the political framework should be changed to allow municipal provision of foundational essentials. Given the unattractiveness of buying back the consequences of extractive private provision, it would be more constructive to open up municipal provision of 21st century essentials. With fibre optic cable and vehicle charging points the most obvious candidates.

But the possibilities here are limited given the ideological English commitment to private utility provision and the practical Scottish retreat from public provision of chargers. The electric vehicle charger network in Scotland was initially rolled out as a national network - ChargePlace Scotland – which was publicly funded by the devolved government. Two thirds of Scottish chargers were in this public network and the number of chargers per 100.000 population by late 2022 was higher in Scotland than in any English region outside London[76]. But investment to double the size of the network was then "unsustainable" when the Scottish government's capital borrowing powers are absolutely capped at £3 billion for all purposes[77]. And in May 2023 it was announced that the network would be handed not to municipalities but to private charger companies whose capital would finance expansion; public funds would be spent only to provide chargers where they would be otherwise "unviable "[78].

Against this depressing background, without any foundational stabiliser, we have diverse stand-alone ventures in municipal trading which start with good intentions whether of the ideological left (as at Liverpool or Bristol) or the entrepreneurial right (as at Spelthorne and Manchester). But the intention of one way or another benefiting local ratepayers, service users and creating responsible businesses is not enough because none of these four

[76] Department for Transport, (2022), 'Electric Vehicle Charging Device Statistics: October 2022'. https://www.gov.uk/government/statistics/electric-vehicle-charging-device-statistics-october-2022/electric-vehicle-charging-device-statistics-october-2022
[77] Scottish Government, (2023 update). *Scottish Public Finance Manual*.
[78] Allan, M. (2023), 'Is ChargePlace Scotland being scrapped', The Scotsman, 23 May. https://www.scotsman.com/lifestyle/cars/is-chargeplace-scotland-being-scrapped-charging-network-set-to-be-broken-up-in-hunt-for-private-funding-4154476#disqus-comment-section

experiments have come good in terms of secure long-term financial viability. Two of them at Bristol and Spelthorne ended in spectacular failure.

To understand how and why reach exceeds grasp we can review how the three conditions of financial viability in different ways thread through the four cases. This illustrates the possibilities and pitfalls of municipal trading under current conditions.

(1) Activity does matter. There is an appropriate area of low-risk activity like mundane services in Liverpool which can be usefully insourced (by ideologues or pragmatists) when outsourcing conglomerates are delivering poor quality services. Even here there are complications like the cyclical variation in waste volumes. But there are high risk activities like intermediation in Bristol and levered arbitrage in Spelthorne which are completely unsuitable for municipal trading. And many other commercial activities, like airport operation, are now beset with incalculable uncertainties so that retreat by municipal divestment rather than strategic advance by acquisition makes most sense. Restricting municipal trading to low-risk activities is now a necessary condition of financial viability; but it is not a sufficient condition because regulations intrude, and governance failure complicates matters.

(2) With regulation in the UK, the overall framework is permissive and arguably this is as it should be so that local authorities can exercise their initiative. The complication then is the unintended consequences of regulatory frameworks which were not designed with municipal trading in mind. Such frameworks can unintentionally either facilitate strategic folly or complicate everyday operations. In the Spelthorne case, the Government framework on capital expenditure and Public Works Loan Board “no questions asked” approval of borrowing failed to restrain unwise speculation and over borrowing. In the Liverpool Streetscene Services case, fair value accounting of pensions deficits complicates running operations for breakeven. If that accounting convention cannot be changed then insourcing municipalities need to be forewarned and braced to provide periodic top ups that deal with balance sheet complications.

(3) The final complication is management control and governance where failures of control and governance are manifest in three of the four cases. The point here is that the capability of UK local authorities has been hollowed out over thirty years as they have lost functions. The problems were compounded in the 2010s by austerity cuts in personnel. UK local authorities are adapted and conditioned to putting out contracts and a turn to insourcing requires a rebuilding of governance capability which backs capable trading management. Instead, we have over reliance on consultants which is clear in the Bristol Energy and Spelthorne cases and then poor governance. In Liverpool and Spelthorne this took the form of extreme informality and cabal decision making; everywhere, especially in Bristol, stop loss controls were applied late in the day after business plan targets had been missed and losses had been allowed to accumulate. Straightforwardly, poor governance gets the management it deserves,

Finally, it should be observed that we now live in financialised times of public austerity and this context needs to be factored in to strategy and evaluation. Long term financial breakeven or near breakeven by a municipal trading venture is a prerequisite because stand-alone municipal trading enterprises which cannot generate the cash and profit to maintain liquidity and solvency cannot rely on continuing support by cash strapped local authorities.

But, if profitability is achieved under capable management, that creates new problems and the danger of being drawn into the financialised mainstream and replicating the calculations of private sector operators. This is what has happened at Manchester Airports Group which aims to make increased profits from running Stansted and East Midlands Airports as well as Manchester airport. But (as we have seen) this leaves Greater Manchester ratepayers exposed to the risk on two airports which have no amenity value for them.

It is never possible to step into the same river twice and the foundational ecosystem of 19th Century municipalism cannot now be easily recreated in the UK. But, if municipal trading is to be revived on a solid, sustainable basis, it would be wise to imitate the 19th century principle of local trading for direct and indirect benefits within the one local authority area. Municipal trading without monopoly is possible but territoriality needs to be respected. The financial message from 19th century municipal trading is then that breakeven is good enough If there are strong externalities and this is likely to be the precondition of political stability in the long run because it puts municipal trading beyond party politics. Recent failures show that UK municipalities of left and right do not understand these basic principles of financially responsible and politically prudent municipal trading.

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