





The failings of state owned industries especially through the 1970s were widely recognised at the time

Independent never meant unaccountable. Reflecting the importance of public utilities for the whole of our society and economy, regulators were created accountable to parliament - crucially rather than government. This quite reasonably gave our democratically elected representatives a mechanism to convey their views about what regulators were doing and what they were delivering, while avoiding undermining that the benefits of independence from government. And the regulators' decisions were subject to both judicial review and in some cases, such as price controls, specialist appeals more on the merits.



confidence as our purpose does suggest a broader remit and a wider tool kit. And crucially it takes us beyond any idea that in order to make regulation more effective all we need is more, better quality data, and a bigger spreadsheet to put it in...

As I said before, if the public policy purpose of that whole system of governance around public utilities is shifting, it has implications for the role of others in that system too. Let's talk about that now.

A lot of the debate in regulatory circles has focussed on the more activist role being taken by government. And it can sound sometimes as though the regulatory community feels rather threatened by it. You hear discussion sometimes about how those in government circles – not only the politicians but the officials too - have 'forgotten' about why we have independent economic regulation, and about how we need to a better job in reminding them of all of its achievements and strengths.

There may be an element of truth to that. But it misses the big point. If as a country we are asking ourselves what sort of society and economy we want to be, it is hardly surprising that we are seeing government taking a keener interest and involvement in questions both of what gets delivered and how it gets delivered.

And when it comes to questions of nationally strategic infrastructure investment, when it comes to questions of distributional impacts, there are questions that involve major externalities both as between different parts of our economy and society and between generations, so there is a space here that government needs to fill.

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But there is no doubt that government today is playing a more active role. And there is a different interface now between government and regulators. We need to get

One of these is the changing role of companies.

It is true that the requirements on company directors these days have widened. Boards – and I'm referring here to corporate law and the UK Corporate Governance Code – are explicitly charged with responsibility for the 'long term success of the company' and directors are required now to have regard to wider stakeholder matters beyond the narrower interests of their investors.

But there is further to go on this. And I think investors are key. Investors have a key role through boards in ensuring companies have the right leadership, and similarly they play a key role, through boards in motivating those leaders, through remuneration and wider opportunities. And investors need to realise that in these public service sectors the long term sustainability of their investment rests on the – demonstrable – legitimacy of the company. In short we need to see more 'enlightened self-interest'.

I do think there is movement on this. We have seen investors in the water sector, for example, increasingly recognising the legitimacy point. Though it may be tempting to observe that it took the regulator – in particular with the arrival of our current Chairman Jonson Cox – to take that conversation to them... And there is still more to do get beyond payment of lip service, into a position where investors and company boards genuinely see the alignment of their own interests with the public interest, and where we see that flow through the governance and reward structures of the companies.

For those of you who are familiar with the thinking on 'ethical regulation' (and I'm a fan) I think this is a critical factor for its success. Maybe someone will pick that up in the discussion later?

The final group within the governance system I have been talking about is that of customers and indeed citizens more widely. I think the role of these two groups has changed enormously in recent years.

Let me talk about customers first.

The changes here have been somewhat paradoxical when you think about it through the lens of what was expected in many of these sectors at privatisation.

Competition was intended to empower customers. Competitive markets would make companies directly accountable to them, giving the ultimate sanction – to vote with



their feet – if they didn't like the price or service they were offered. We now know a bit more about how utility markets work... While there are some products that really get customers excited and engaged – consumer goods for example – there are many others that are less exciting. And public utilities tend to fall into the latter group. Especially where the complexity of products and tariffs – possibly coupled with some bad experiences - just causes people to switch off.

There is evidence to suggest that customers *overall* are better off as a result of competition. But – unsurprisingly – those who don't engage don't get as good a deal as those who do. And there is no doubt that the difference in the experience between those who engage and get the best deal, and those who don't, is increasingly seen as unacceptable. Especially if those who get the best deals are being subsidised by those who get the worst. It is a situation that just doesn't deliver on that redefined public policy goal for the whole system – trust and confidence.

So where we have competition in utility markets, maybe regulators should expect a little less from customers, and be more prepared to stay involved? Certainly regulators need to pay close attention to the need to build customer trust in competitive Td [(o w)16 (her)7 (e w)16 (e(t)2 i)6 (t)2 ((e(t)2Mt)2 ( do)1o–)Tj 0hntn2D [(r)7 (eg)1



It is a very much more dynamic and porous system, and much more dynamic and porous environment for economic regulators to work.

So, what does all this mean for the future of independent economic regulation?

The good news – at least if you are a regulator – is that I think independent economic regulation has a very bright future.

The core purpose of independent economic regulation – that core purpose that has remained constant – this being to drive efficiency and better service in privately provided public services remains.

We have a tool kit that – notwithstanding perennial scope for improvement – at its heart works very effectively at doing some things that really matter in respect of this core purpose – enabling investment, driving value for money.

And even acknowledging the wider public policy purpose of the whole system of governance – the importance of trust and confidence in these critically important sectors and the services they provide, I think independent economic regulation offers some solutions, especially if regulators are unafraid to use their wider tool kit and focus not only on ‘what’ customers get but on the relationships between service providers, customers and society and pay proper attention to the long term dynamics within sectors.

In short I see big opportunities for independent economic regulation to help build trust and confidence in public utilities. And also to help others, who are also feeling their way in this evolving system of governance, play their part effectively too.

We do face some challenges, of course. From where I sit, there are four that seem most significant.

The first is successfully redefining our relationship with government.

That starts with being seen by government as part of the solution rather than the problem, which I think we are. But we need to establish perhaps a more mature relationship than we had in the past. A relationship which sees us acknowledge that the sectors we regulate are politically salient, that government will have things to say and quite properly will have interventions to make. Which sees us help government to do what it is trying to do in these sectors transparently, and with the benefit of our expertise, but which gives us permission to be critical friend (rather than a

cheerleader). Because let's face it economic history is littered with examples of, quite possibly well-intentioned, government interventions in markets that were not an unalloyed success...And I think regulators should have permission to challenge and question in this space.

Crucially, we need a relationship that maintains our ability to set out and operate our regulatory frameworks on the basis of statute, so that investors and management can bring their expertise to our sectors to the benefit of customers. And which sees us really doing our job effectively – and being seen to do our job effectively - so that government doesn't feel the need to intervene on a 'remedial' basis.

The second is redefining our role with respect to customers.

In competitive markets we need to stay more involved than we might once Td [(r (e pw)16 e-0.012

To be clear I'm not talking about going backwards to regulators doing giant customer surveys and telling companies what to do. I'm just talking about the fact that we are experts. That's a good thing – a big part of our tool kit is pretty technical and we need our expertise to do use it as effectively as we can for. But we need to stay grounded.

And – another part of this challenge – we need not to be defensive. Part of this is about challenging our ourselves on policies and approaches – to learn from what had worked and also from what has not.

And it also includes perhaps not being defensive of the institutional structure we all work in. I'm not generally a big fan of structural change. Too often it seems to meet cosmetic demands for 'something' to be done, while achieving little beyond cost and distraction. But as I talk about the need to redefine our relationship with customers and with companies, it strikes me that we do need to reflect on the world as customers and those who provide services to them increasingly see it. And it is a world of multi-utility bundles, of 'connected home' services and a more holistic view of the customer as a human being living a multi-dimensional life, rather than as a water bill payer, or a telecoms bill payer or an energy bill payer. At the very least we are going to need to work much more closely together to ensure that customers are properly protected and service providers don't face undue barriers in competing across sectors. I'm not saying structural change is the only way to do that, but I think we should be open minded about it.

On structures, policies and approaches, we need to stay open and curious, and seek out the maverick voices, so we don't drown in self-congratulatory groupthink.

But from what I can see regulators are pretty conscious of these challenges and are working hard on them.

And we do have a genuinely really valuable mutual support network through UKRN – which helps us think through the challenges and opportunities we face together, learning from each other.

So it is with a genuine feeling of optimism that I look forward to seeing what independent economic regulation – as part of this ever evolving system of public utility governance will deliver for society and our economy over the next 30 years!

Maybe Martin will invite me back for a retirement gig....?