Public ownership of private companies and net zero: what should governments do?

The Covid-19 pandemic has generated unprecedented support for private companies from the public purse and there are no signs of this trend abating as the pandemic drags on into 2021. As a result, we can expect to see greater public ownership of private companies in many countries, especially as emergency loan repayments begin and companies seek refinancing. Governments will be in this for the long-haul and should plan accordingly. For example, RBS (now NatWest Group) was bailed out in October 2008 and the UK Government is still, more than 12 years later, the majority shareholder.

If governments are forced to take stakes in companies, we must ask ourselves what they should use their ownership to achieve. How can governments help companies recover from the pandemic-induced recession, improve their financial and environmental performance, and thereby protect and create value for taxpayers?

Firstly, governments should take up the role of model active owners, managing shareholdings in line with the best practices of leading institutional investors. The United Kingdom, for example, has a world-leading Stewardship Code for investors that governments should draw lessons from.

Governments can learn a lot from large institutional investors and adopt practices already being implemented by leading pension funds, such as the Brunel Pension Partnership (with c. £30bn of assets), and some of the world's largest investors, such as the Norwegian Global Pension Fund (with well over $1 trillion of assets) and Legal & General Investment Management (with c. £1 trillion assets under management).

These investors set out their expectations of investee companies, including expectations that boards are aware of environmental risks and impacts, and have strategies to manage them. They communicate their expectations to companies and require material environmental risks to be incorporated into planning, risk management and reporting. They ask companies to disclose their environmental risk exposure, impacts, and management strategies through standardised frameworks, such as the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). They increasingly require investee companies to commit to achieving net zero by 2050 or earlier, to disclose credible Paris-aligned business strategies, and to establish an annual non-binding 'say on climate' vote, giving investors the opportunity to express their views on the effectiveness of those strategies. These are all things governments can require and should implement as model active owners.

Secondly, as stewards of taxpayers' money, governments should manage shareholdings in line with their own policy objectives, particularly in relation to climate change and achieving a just and fair transition to net zero.

In the UK, consistency with government policy means consistency with the Climate Change Act (2008) and the net zero emissions target (2019), as well as the 25 Year Environment Plan (2018) and new plans to decarbonise transport. Translating these and other very ambitious policies into active ownership in practice should become an important implementation priority for the UK Government. It will require engagement beyond that of most institutional investors in order to steer companies that are directly benefiting from taxpayer money into line with Government policy and a lower emissions future.

Taking this approach will help to make investee companies fit for a net zero future, resilient in the face of the impending crisis that stems from climate change, and ultimately more attractive to private investors thus creating value for taxpayers once the shareholdings are sold.

In the UK, it is the Treasury-owned company, UK Government Investments (UKGI), that will be responsible for managing UK state-owned companies. It does so in line with the mandate the UK Government sets for it. To achieve the above, this mandate must be updated to require UKGI to follow best institutional shareholder practice when managing the Government's shareholdings, which includes adhering to the Stewardship Code and the UN Principles for Responsible Investment. It should require UKGI to manage the shareholdings consistently with government policy on climate and provide specific directions on how UKGI is expected to engage with companies on climate and other issues. It can also require UKGI to monitor the conditions that have been imposed on companies during the bailout process, to ensure accountability.

Every bailed out company is different and bespoke arrangements will need to be applied to each. UKGI's job in managing government shareholdings after the bailouts will increase significantly. It will almost certainly need more people and greater stewardship expertise and it will need to quickly adopt best practice on active ownership and stranded asset risk management. The job of building capacity and developing plans for implementation at UKGI should start immediately.

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