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State-owned enterprise sector, 2017

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Overview[1]

Table 1 provides some broad financial indicators for the fourteen largest non-financial state-owned enterprises (SOEs), drawn from the most recent accounts published by each company for 2016. The figures highlight the continuing importance of the SOE sector to the Irish economy, with the aggregate turnover of the SOEs included in Table 1 being equivalent to 3.5 per cent of nominal GDP in 2016, while the total number of employees represents 1.9 per cent of national employment. Table 1 also highlights the magnitude of investment carried out by SOEs, with close to €2 billion of capital expenditure in 2016 (to put this in context, net public capital expenditure in 2016 was just over €3.8 billion). In addition, the dividends paid to the Exchequer in 2016 amounted to an appreciable €268 million, bringing the total amount transferred to the Exchequer from 2008 to 2016 by the eight SOEs in Table 1 that paid dividends to over €2.26 billion.[2]

While the majority of the SOEs listed in Table 1 are profitable operations that contribute much-needed investment and pay substantial dividends to the Exchequer, a number of SOEs face

[1] Throughout this review the authors relied heavily on information provided on SOE websites and annual reports, as well as the *NewERA Annual Financial Review 2016/2017* (NewERA, 2017).
[2] Authors' calculations based on figures included in Exchequer statements and SOE annual reports.

ongoing financial difficulties that have threatened the viability of their operations in some cases. We provide a brief analysis of the main issues facing the loss-making SOEs below while also reviewing notable developments in 2017 related to some of the profitable SOEs listed in Table 1.

Bus Éireann and Irish Rail

The year 2017 was another difficult one for Bus Éireann and Irish Rail as both struggled to deal with continued deterioration in their financial positions amid a period of industrial relations unrest that saw strike action at both companies. After incurring net losses of €9.5 million in 2016, Bus Éireann moved to implement a radical cost-saving plan that included staff reductions and pay cuts along with wide-ranging changes to the company's work practices and its organisational and management structures. The announcement of the plan led to a three-week strike by workers, beginning in late March, which Bus Éireann estimated as costing the company approximately €500,000 per day. The strike was called off after extended negotiations led to a proposed compromise plan by the Labour Court. In December 2017 a major component of the agreed restructuring plan, which introduced a new rostering system for drivers, was agreed. The changes should lead to a significant decrease in Bus Éireann's substantial overtime bill going forward and the company announced that it hoped to return to profitability in 2018 after incurring an expected loss of €13 million in 2017. The government's decision in December 2017 to substantially increase the amount it pays Bus Éireann to provide free travel to pensioners will provide an additional boost to the company's attempts to return to profitability this year (O'Halloran, 2017a). Separately, workers at Irish Rail held two separate 24-hour strikes in November 2017 as part of an ongoing dispute over pay increases. Further strikes were called off after acceptance of a recommendation by the Labour Court that workers should receive a 2.5 per cent increase in pay every year for the next three years.

An Post

After reporting losses of €5.5 million in 2014 and €2.4 million in 2015, An Post incurred a significant net loss of over €16 million in 2016. Like incumbent postal operators worldwide, the company is facing

Table 1: SOE financial results for 2016

Sector	*SOE*	*Turnover (€000)*	*Operating profit (€000)*	*Profit/loss for year (€000)*	*Average no. of employees*	*Capex (€000)*	*Dividends (€000)*
Energy	Gas Networks Ireland	497,718	193,610	110,450	887	125,000	134,659
	Irish Water	906,231	69,165	54,381	734	459,000	–
	Bord na Móna	406,228	24,745	5,237	1,998	42,700	3,763
	Coillte	287,727	64,933	48,225	862	59,700	7,200
	Eirgrid	672,616	26,110	8,722	480	32,231	3,500
	ESB	3,211,751	597,326	186,191	7,597	897,000	82,165
Transport	Bus Éireann	313,781	–8	–9,524	2,532	30,200	–
	Dublin Bus	295,893	14,240	2,622	3,431	21,453	–
	Irish Rail	467,748	25,435	–2,859	3,806	84,076	–
	DAA	793,107	143,392	79,383	3,598	126,000	18,300
	IAA	191,921	39,490	32,115	652	14,100	7,430
	Dublin Port	81,633	45,554	39,040	146	44,200	10,912
Communications	An Post	825,652	–13,696	–16,650	9,928	11,601	–
	RTÉ	337,318	–6,130	–19,653	1,834	7,551	–
Total		**9,289,324**	**1,224,166**	**517,680**	**38,485**	**1,960,124**	**267,929**

Source: 2016 annual reports and financial statements for each SOE.

Notes: (i) Profit/loss for year includes exceptional items; (ii) Bord na Móna accounts are as of end of March 2017 and Eirgrid accounts are as of September 2016; (iii) where capex figures are not explicitly reported, the amount reported in the cash flow statement for the purchase of tangible fixed assets is used as a proxy instead; (iv) dividends paid reflect amounts paid in 2016 financial year to the Exchequer; (v) the dividend paid by Gas Networks Ireland was €34,659; however, the amount included in the above table reflects the overall amount paid by the wider Ervia group, which includes a €100 million special dividend related to the sale of the Bord Gáis Energy business.

increasing indirect competitive pressure as a result of the ongoing global changes to the way people communicate. While the digital revolution has presented opportunities arising from increased parcel volumes due to the growth in e-commerce, this is occurring in a segment of the mail business that is increasingly competitive. Conversely, incumbent operators are facing shrinking traditional mail volumes. In the case of An Post, traditional mail volumes have fallen by approximately 40 per cent since 2007. Recognising the difficulties the company faces in meeting its universal service obligation requirements and to help support the post office network, the government announced in November 2017 that it would provide An Post with a €30 million loan as part of a restructuring plan which would facilitate the continuation of a five-day-per-week postal service and the expansion of its parcel-delivery service. As a result, An Post expects to move to a break-even position in 2017; however, its CEO expects up to 360 post offices to close over the next few years as it continues to restructure its operations (Burke-Kennedy, 2017).

RTÉ

RTÉ incurred a net loss of close to €20 million in 2016, with the company partly attributing the higher-than-expected loss to the impact of Brexit on its commercial revenues. However, the major ongoing factor underpinning its financial difficulties is the issue around the level of public funding it receives from the TV licence system, which continued to impact the broadcaster in 2017. A report by the Oireachtas Committee on Communications, published in November 2017, highlighted how licence fee evasion rates were estimated at 14 per cent, representing up to €40 million in lost revenues per year. The same report recommended transferring the responsibility for licence fee collection from An Post to the Revenue Commissioners and widening the applicability of the licence fee to capture all households consuming media regardless of whether they owned a TV or not. While significant reform of the future funding of public service broadcasting is undoubtedly required, it is unclear how quickly any formal proposals to fix the system will be implemented by the government in 2018, and RTÉ's financial difficulties will continue until reforms are enacted.

Bord na Móna

Bord na Móna recorded a stable level of profits in 2016 but the company faces considerable challenges in restructuring its activities away from its traditional peat business. The company established a new bioenergy division, principally focused on developing its biomass business as a central part of its operations going forward given its stated ambition to exit the peat-supply-for-power-generation business by 2030. As part of its efforts to diversify into other sources of renewable energy, Bord na Móna also recently announced an agreement with the ESB to co-develop a number of solar energy projects.

ESB

The financial results of the ESB were solid in 2016, with interim results for 2017 showing sustained healthy profits. Looking forward, the company continues to face uncertainty and challenges in the electricity market. One of its principal challenges concerns the formation of I-SEM, a fully integrated single European market which is due to go live in May 2018. The company is also committed to aligning its strategy with the government's long-term decarbonisation vision. A key decision in this regard concerns its Moneypoint plant, which has a capacity of 915 MW. The company has committed to making a decision about replacement generation technology at the plant by 2020. Increased economic growth also presents challenges, and in its 2017 interim financial statement the company identified the risk for ESB networks in meeting increased infrastructure demand in Dublin.

Gas Networks Ireland

After the ESB, Gas Networks Ireland (GNI) was the next most profitable SOE, recording operating profits of close to €200 million. In terms of the future outlook for the company, given Ireland's aim to reduce greenhouse gas emissions by at least 30 per cent by 2030 (compared with 1990 levels), GNI will play a major role in the long-term decarbonisation initiative in Ireland. In 2017 the company launched a €700,000 Compressed Natural Gas Vehicle Fund, which will make up to €20,000 available to businesses towards the purchase of a new natural gas vehicle. Other decarbonisation-related developments include investigating the injection of indigenous renewable gas into the gas network, carbon capture and storage for electricity and industry, and the use of carbon-free hydrogen in the gas network. These opportunities will have implications for investment in long-term infrastructure and this will be the key long-term challenge for GNI. Other notable developments in 2017 include the ongoing construction of a second gas pipeline between Ireland and the UK and the commencement of a new regulatory revenue control for the period October 2017 to September 2022.

Irish Water

Irish Water now operates under conditions of greater certainty following the enactment of the Water Services Act, 2017, in November. The Act provides for the setting of a threshold amount for liability to pay for water services to a dwelling. It also provides for certain allowances and exemptions from that liability and for the funding of Irish Water, as well as for the refunding of certain charges already paid. In November 2017 Irish Water commenced the process of refunding approximately €173 million to 990,000 households that had paid water charges or had been charged for excessive use of water.

Dublin Bus

Dublin Bus was the only company within the CIÉ group to record net profits in 2016; however, 2017 saw a significant development with the announcement in August that UK bus company Go-Ahead was the preferred bidder for the National Transport Authority (NTA) contract to operate 10 per cent of Dublin Bus routes. Go-Ahead is expected to begin operating some of the twenty-four routes included in the contract by the end of 2018. As part of an agreement reached in 2015 after strike action by Dublin Bus workers when the tender for the routes was first proposed, the loss of routes will not lead to forced redundancies, and the NTA announced that it plans to work with Dublin Bus to increase frequency on the rest of its network.

Dublin Airport Authority

The Dublin Airport Authority (DAA) recorded healthy net profits of close to €80 million in 2016 on the back of strong growth in passenger numbers, which continued to grow in 2017, with a record 29.6 million passengers travelling through Dublin Airport. While the main work related to the construction of a second runway at Dublin Airport is due to commence in 2018, a notable development in 2017 was the announcement in September by the Minister for Transport, Tourism and Sport of legislation removing the ministerial right to intervene in the process of setting passenger charges by the Commission for Aviation Regulation (CAR), conducted every five years. It also removes the requirement for the CAR to consider the financial viability of the DAA when determining charges (O'Halloran, 2017b). This was previously an issue in 2014 and 2009 when ministers at the time directed the CAR to ensure the financial viability of the DAA when making its pricing determination. It remains to be seen what impact the change might have when the next major review of passenger charges takes place in 2019, particularly in the context of the DAA's significant investment in the second runway at Dublin Airport.

SOE dividend policy, post crisis

In this final section we focus on an interesting development in relation to SOE policy since the economic crisis which has seen the government demand significantly increased dividend pay-outs from the most profitable SOEs in the energy and transport sectors. Whereas total dividends paid by the eight SOEs included in Table 2 amounted to just over €495 million between 2001 and 2007, this more than quadrupled to a total of €2.26 billion over the period 2008–16. The majority of this increased amount was paid by the ESB (€1.36 billion) and Bord Gáis (€660 million). Prior to 2008, Bord Gáis paid out 10 per cent of its previous year's profits in dividends. This was increased to 20 per cent in 2008 and 30 per cent from 2009 onwards. In October 2013 the ESB revised its dividend policy at the request of the Minister for Communications, Energy and Natural Resources. Under the revised policy, the ESB increased its dividend pay-out ratio from 30 per cent of normalised profits after tax to 40 per cent in 2017.

While changes to the dividend pay-out ratios for the ESB and Bord Gáis have contributed to the considerable increase in dividend payments, the payment of special dividends by both companies has also been a major factor and has been a striking development in government policy after the crisis. A total of €585 million of the ESB's dividend payments and €350 million of Bord Gáis's dividend payments between 2008 and 2016 were the result of special dividends imposed by government. In the case of Bord Gáis the special dividends paid were a result of the privatisation of the company's retail division, Bord Gáis Energy, in 2014. Ervia, the new parent group company of

GNI (what remains of the former Bord Gáis company post privatisation) and Irish Water, is due to pay a total of approximately €1 billion in special dividends to the government arising from the sale. The payments are to be spread out over a number of years in order to circumvent Eurostat rules on the use of privatisation proceeds to help improve the general government balance. Ervia has paid approximately €450 million of the total amount due to the Exchequer as of the end of 2017.

In the case of the ESB, the company was directed by the government in 2012 to sell €400 million in assets by the end of 2014 and to pay the proceeds to the Exchequer in the form of a special dividend. The sale of assets imposed on the ESB was to assist in meeting the government's agreed targets for privatisation revenues with the troika under the terms of its bailout agreement. The ESB raised just over half of the required €400 million through the sale of its 50 per cent stakes in two international tolling plants – Marchwood Power in the UK and Bizkaia Energia in Spain – in November 2013 and May 2014, respectively (ESB, 2014, 2015).

To raise the remainder of the funds for the special dividend, the ESB announced in October 2013 that it would sell two of its peat-fired generation stations in Ireland. However, after a detailed review, the ESB reversed this decision in July 2014 and instead announced that it would borrow the money needed to pay the remaining €213.7 million it owed the government. In a similar development, Bord Gáis announced in July 2014 that it would be financing a €300 million portion of the special dividends owed to the Exchequer from borrowings. The company stated that it would use the proceeds arising from the refinancing of company debt after the sale of its retail division to pay the dividends as it had calculated that the resulting lower repayments would allow it to borrow an extra €300 million without affecting its current repayments (Paul, 2014). The financing of over €500 million in special dividends to the Exchequer through the ESB and Bord Gáis borrowings raises the risk of increasing the indebtedness of these SOEs in the short term and creates potential pressure to increase consumer prices in the medium to short term, thus hindering investment and competitiveness policy goals. These developments are consistent with other government initiatives such as the use of public–private partnerships to facilitate public investments in infrastructure by off-balance-sheet means. It remains to be seen whether these developments serve the long-term interests of the SOEs, consumers and taxpayers.

Table 2: SOE dividends (€m) paid to Exchequer from 2001 to 2016

	ESB	*Bord Gáis*	*Dublin Port*	*Bord na Móna*	*DAA*	*Coillte*	*IAA*	*Eirgrid*	*Total*
2001	0.0	23.0	0.0	0.0	0.0	0.0	0.0	0.0	**23.0**
2002	37.7	21.7	0.0	0.0	0.0	0.0	1.1	0.0	**60.5**
2003	63.8	9.8	0.0	0.0	7.2	0.0	1.0	0.0	**81.8**
2004	63.8	9.7	0.0	0.0	6.1	0.0	1.3	0.0	**80.8**
2005	73.5	10.1	0.0	0.0	0.0	0.0	0.0	0.0	**83.6**
2006	68.8	9.1	0.0	3.9	0.0	0.0	0.0	0.0	**81.7**
2007	63.4	8.4	4.2	8.0	0.0	0.0	0.0	0.0	**84.0**
2008	123.0	27.9	5.1	12.2	0.0	2.6	0.0	0.0	**170.9**
2009	253.9	38.2	5.3	5.0	19.4	0.0	0.0	0.0	**321.8**
2010	89.7	30.3	5.5	3.3	0.0	0.0	0.0	0.0	**128.8**
2011	73.2	33.1	16.5	4.1	0.0	10.0	0.0	0.0	**136.9**
2012	68.8	23.8	10.2	2.4	0.0	2.0	0.0	0.0	**107.2**
2013	139.5	49.9	15.0	5.0	0.0	2.0	5.0	4.0	**216.3**
2014	269.1	171.0	8.0	10.6	0.0	4.0	4.8	0.0	**467.6**
2015	258.7	151.0	8.8	10.1	0.0	4.0	6.5	3.0	**439.2**
2016	82.2	134.7	10.9	3.8	18.3	7.2	7.4	3.5	**264.4**
Total	**1,729.1**	**751.6**	**89.5**	**68.4**	**51.0**	**31.8**	**27.2**	**10.5**	**2,748.6**

Source: Annual Exchequer statements and SOE annual reports.
Note: Dividend paid from 2014 onwards for Bord Gáis is the amount paid by Ervia (the company which took over Bord Gáis's remaining network business when its retail division was privatised in 2014).

Outside of the two main energy SOEs, both Bord na Móna (€56.5 million) and Dublin Port (€85.3 million) contributed considerable dividend payments to the Exchequer from 2008 to 2016. In the case of the latter, dividends have been paid despite pending large-scale investment in the deepening of the main navigation channel at the port. Similarly, the DAA was also directed by the government to begin paying dividends again in 2016 when it paid out €18.3 million, with a €29.1 million dividend announced for 2017 despite its planned major investment in a second runway at the airport. When the new dividend policy for the DAA was first announced, the CAR openly questioned the feasibility of the DAA being able to simultaneously 'make allowances for investments needed to develop the airport efficiently and economically, protect users from higher airport charges, and provide for… a dividend' (Commission for Aviation Regulation, 2014, p. 33). This tension between earning a return from its shareholding in an SOE and the ability of an SOE to invest in future capacity is an issue that is likely to come increasingly to the fore in the future as most SOEs move forward with significant capital expenditure programmes over the coming years.

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