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State-owned enterprise sector, 2018

Dónal Palcic & Eoin Reeves
Department of Economics, Kemmy Business School,
University of Limerick, Ireland

Overview[1]

Table 1 provides some basic financial indicators for the 2017 financial year for the fourteen largest non-financial state-owned enterprises (SOEs) in Ireland. The results highlight the significant contribution of the SOE sector to the economy, with the aggregate turnover of the SOEs included in Table 1 equivalent to 5.2 per cent of nominal modified gross national income in 2017, while the aggregate number of SOE employees represents approximately 1.7 per cent of total national employment. Table 1 also highlights the considerable scale of the investment carried out by SOEs, which saw over €2.1 billion of capital expenditure in 2017 (to put this in context, gross fixed public capital formation in 2017 was €5.5 billion). In addition, the dividends paid to the Exchequer in 2017 amounted to a substantial €328.9 million, bringing the total amount transferred to the Exchequer by the SOEs included in Table 1 between 2008 and 2017 to almost €2.6 billion.[2]

While most of the SOEs covered in this review are profitable operations that contribute much needed investment in critical

[1] Throughout this review we have relied heavily on information provided in SOE annual reports and websites, as well as the NewERA *Annual Financial Review 2017/18*.
[2] Source: authors' calculations based on figures included in Exchequer statements and SOE annual reports.

infrastructure and pay substantial dividends to the Exchequer, a number of SOEs are still experiencing persistent financial difficulties. We provide a brief analysis of the main developments for each SOE in 2018 below, concentrating in particular on loss-making SOEs and those with major plans for reform. We conclude our review with a brief commentary on the overall contribution of the SOE sector to planned investment in the economy over the next decade, as well as the threat of Brexit to the sector.

CIÉ Group – Bus Éireann, Iarnród Éireann and Dublin Bus

In recent years the narrative around the state-owned public transport companies has been dominated by the financial difficulties experienced by Bus Éireann and Iarnród Éireann. In 2018 Bus Éireann continued to implement the significant work practice changes recommended by the Labour Court in mid 2017. The company recorded a deficit of €23.6 million in 2017, which was partly explained by exceptional costs incurred due to restructuring and severance payments (totalling €16.5 million). Bus Éireann continues to face challenges due to ongoing market liberalisation measures. Although it lost the rights to operate Kildare commuter routes, it won the five-year contract to provide bus services in Waterford city. There is an increased likelihood of further market liberalisation measures following a proposal by the National Transport Authority to introduce competitive tendering for a further 10 per cent of services currently operated by the company.

Having experienced severe financial difficulties in recent years, Iarnród Éireann recorded an overall deficit of €1.1 million compared to €2.4 million in 2016. Improved financial performance has been driven by increased passenger numbers, which have returned to pre-crisis levels. However, with accumulated losses of over €154 million, solvency remains a serious issue for the company. As was the case in 2016, Dublin Bus was the only company within the CIÉ group to record net profits (€1.0 million in 2017, compared to €2.6 million in 2016). The company also faces significant changes in its competitive environment, with the contract for a number of public service obligation routes in the outer Dublin Metropolitan Area awarded to a private company, which commenced services in 2018. Dublin Bus is also engaged with stakeholders on a major review of its network – 'BusConnects' – which is yet to be finalised but is expected to result in

Table 1: SOE financial results for 2017

Sector	*SOE*	*Turnover (€000)*	*Operating profit/(loss) (€000)*	*Profit/(loss) for year (€000)*	*Average no. of employees*	*Capex (€000)*	*Dividends (€000)*
Energy	Gas Networks Ireland	473,175	166,181	125,335	560	147,000	148,440
	Irish Water	1,012,880	220,998	195,708	759	526,000	–
	Bord na Móna	395,304	(6,098)	(8,283)	1,980	27,400	2,454
	Coillte	298,651	48,300	42,795	827	56,000	8,000
	Eirgrid	579,415	21,757	1,977	472	48,138	4,000
	ESB	3,229,022	213,984	(31,910)	7,790	867,000	115,794
Transport	Bus Éireann	309,289	2,862	(23,678)	2,530	32,500	–
	Dublin Bus	299,318	12,006	1,003	3,506	6,504	–
	Iarnród Éireann	475,530	25,100	(1,065)	3,803	108,888	–
	DAA	854,582	164,681	130,316	3,855	184,000	29,100
	IAA	193,442	33,540	26,267	666	13,054	9,248
	Dublin Port	85,497	46,512	40,575	148	96,200	11,712
Communications	An Post	840,002	8,407	37,274	9,905	10,855	–
	RTÉ	337,576	3,056	42,093	1,746	9,854	–
Total		9,383,683	961,286	578,407	38,547	2,133,393	328,748

Source: 2017 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 2018 and Eirgrid accounts are as of September 2017; (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 included above reflects amounts paid in 2017 financial year to the Exchequer; (v) the dividend paid by Gas Networks Ireland was €48,440; 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.

considerable consolidation of the existing bus network to allow for less direct routes and to make greater use of hubs and connections.

An Post

After incurring a significant net loss of over €16 million in 2016, An Post returned to profitability in 2017. The main driver of this was the decision by the government to allow An Post to increase the price of a single-use stamp by 39 per cent to €1, bringing it in line with the average price across Europe. This increase led to an extra €60 million in revenue in 2017, which more than compensated for the continued decline in traditional mail volumes (down 8 per cent in 2017) and helped to generate an operating profit of €8.4 million (after having incurred an operating loss of €12.4 million in 2016). An Post also benefited from exceptional revenues of almost €47 million, arising from the sale of a property in Dublin and an equity dividend from its stake in Premier Lotteries Ireland, bringing its profits after tax to €37 million. An Post implemented a major reorganisation of its company structure in 2017 as part of a strategic plan to secure its longer-term future after years of financial difficulties. Two new stand-alone businesses with separate managing directors and management teams were created – An Post Mails & Parcels (traditional mail activity) and An Post Retail (post office business). Reforms announced during 2018 for the latter business that focused on the closure of post offices in rural areas have generated much controversy. In August 2018 it was announced that 159 post offices would be closed in rural areas after a voluntary retirement package plan for postmasters was put in place, with the CEO of An Post announcing that he expected a further 160 to 360 closures over the next four years (Power, 2018).

RTÉ

The substantial revenues earned from the sale of over eight acres of land at its Donnybrook studio in July 2017 led to RTÉ recording a €42.1 million profit after tax for 2017 (after incurring a net loss of close to €20 million the year before). However, the underlying financial position of RTÉ remains precarious, with the company continuing to run a substantial deficit before exceptional items and tax. As highlighted in our review of the SOE sector last year (Palcic & Reeves, 2018), one of the key determinants of RTÉ's financial difficulties is the high rate of TV licence fee evasion in Ireland, which is more than double that of the UK and most other European countries. In addition, despite receiving an extra €6 million in public funding in Budget 2017, this only partially reversed the cuts made in previous years and RTÉ claims that it still does not receive adequate public funding to meet its objectives as a public-service broadcaster. A Department of Communications, Climate Action and Environment working group is due to report in early 2019 on the options for reform of the licence fee collection system. Until meaningful changes to the system are enacted on foot of this report, RTÉ's financial difficulties are likely to continue in the future.

Bord na Móna (BnM)

BnM experienced a difficult financial year in 2017/18, recording an operating loss of €6.2 million after incurring exceptional costs of €39.3 million. The latter was related to the closure of its Littleton briquette factory, its plans to exit the coal business and a programme of compliance actions at the White Moss Horticulture business acquired by BnM in 2016. Despite its difficulties last year, the company managed to reduce net debt by over 50 per cent, putting it in a good position to fund its restructuring plans going forward. The company officially launched its new Bioenergy Division in September 2017. The new division is focused on the development of a sustainable biomass business as a central part of its future activities as it looks to exit the peat supply business by 2030. BnM also made significant progress on its joint venture plans with the ESB to develop a €180 million wind-farm project on BnM lands in Mayo.

ESB

The ESB reported an after-tax loss of €32 million for 2017 due to an exceptional impairment charge of €276 million related to the revaluation of some of its generation assets, arising from the introduction of new Integrated Single Electricity Market rules. When this exceptional charge is excluded, the ESB's profit after tax was €213 million, which was significantly down on the previous year, due in large part to a more difficult trading environment and downward pressure on energy margins. The ESB contributed the highest level of capital expenditure of any SOE in 2017/18, commissioning a number of new wind farms as part of its own operations, as well as investing in other wind farms and a biomass plant through various joint ventures with other companies. The ESB also entered the domestic supply market for electricity and gas in Great Britain during 2017 and made significant progress on the rollout of fibre broadband infrastructure and services in Ireland through its SIRO joint venture with Vodafone.

Gas Networks Ireland (GNI)

Although GNI recorded healthy operating and after-tax profits in 2017, its operating margins and return on capital decreased compared to 2016, largely as a result of lower regulated gas tariffs to customers. GNI continued to invest heavily in infrastructure throughout 2017/18, completing a large portion of the 50-km twinning gas pipeline with Scotland and constructing compressed natural gas facilities in Shannon and at Dublin Port. GNI also progressed plans to supply renewable gas (made using grass and other natural feedstocks) on its network in 2018. The company has announced a target of supplying 20 per cent of Ireland's gas from renewables by 2030. In addition, GNI's Aurora Telecom subsidiary made considerable progress in 2018 on the construction of its €35 million dark-fibre network link between Dublin and Cork, which is due to be completed towards the end of 2019.

Irish Water

In July 2018 the government announced a significant change to the governance of Irish Water. Currently, Irish Water is a fully owned subsidiary of Ervia, but under the government's new plans it will become a stand-alone, commercial, state-owned, regulated utility in 2023. NewERA (2018) notes Ervia's challenge in safeguarding Irish Water's readiness for its future new status. This includes ensuring that there is no distraction in the intervening period on implementing key strategic objectives, particularly in relation to its substantial capital investment plan. In 2017 Irish Water reported a profit after tax of €196 million (compared to €54 million in 2016). The fully regulated company was reliant on the state for 74 per cent of revenue in 2017. It is expected that the government will fund the majority of the €8.5 billion investment plan by Irish Water included in the *National Development Plan 2018–2027*.

Dublin Airport Authority (DAA)

The DAA recorded healthy net profits of close to €130 million in 2017 (compared to almost €80 million in 2017) on the back of strong growth in passenger numbers. Passenger numbers continued to grow in 2018, with a record 33.9 million passengers travelling through Dublin and Cork Airports. In October 2018 the DAA reached financial close on the main construction contract for Dublin Airport's new north runway. The contract for the design and construction of the 3.1-km runway was awarded to a joint venture between Irish firm Roadbridge and Spanish infrastructure company FCC. The runway is expected to cost in the region of €320 million and the company also announced plans to invest an additional estimated €900 million in new piers and aircraft stands to increase capacity to 40 million passengers annually. The possibility of constructing a third terminal at Dublin Airport is also under consideration following a consultancy report on the future of all state-owned airports that was brought to cabinet in October 2018.

National Development Plan

In February 2018 the government published the *National Planning Framework* (NPF), which will guide national, regional and local planning and investment decisions over the next two decades. The *National Development Plan 2018–2027*, which underpins the implementation of the NPF, sets out details of an estimated €116 billion of total investment in the Irish economy. It is envisaged that the main SOEs will account for over 24 per cent (€27.8 billion) of the total planned investment. SOEs will therefore make a major contribution to the achievement of the ten national strategic outcomes provided for in the NPF. Table 2 provides a sectoral breakdown on the planned investment by SOEs over the relevant period.

Table 2: Planned investment by main SOEs under the National Development Plan 2018–2027

Sector	*Investment (€billion)*
Energy	13.7
Irish Water	8.5
Airports	3.8
Ports	1.0
Other (e.g. Coillte, Bord na Móna)	0.8
Total	27.8

Source: NewERA (2018).

Brexit

Although the details of the final outcome are still to be decided, the exit of the UK from the EU is likely to have a major impact on the SOE sector. In relation to the transport sector, the UK has a significant influence on volumes at the three state airports. A recent report by the Department of Transport, Tourism and Sport (DTTAS) showed that in 2017 the UK accounted for six of the top ten routes from Dublin Airport, over 50 per cent of passenger traffic at Cork Airport and 41.2 per cent of traffic at Shannon Airport. With respect to maritime trade, 73.8 per cent of goods shipped between Ireland and the UK passed through Dublin Port in 2017. More than half of all goods forwarded through Irish ports in 2017 went to the UK while 37 per cent of all goods received by Irish ports originated in the UK. These amounts are significantly higher than the total maritime trade with other EU member states. According to NewERA (2018), the DTTAS is progressing various contingency plans for Brexit in conjunction with the state ports sector.

Brexit is also expected to have implications for the forestry and horticulture sectors. NewERA (2018) highlights how Coillte and BnM are particularly exposed to currency risk and a slowdown in economic growth in the UK. BnM faces these risks through its horticulture division, while 41 per cent of Coillte's turnover is derived from the UK market. Coillte faces the risk of a deterioration in its trading environment as a result of Brexit, especially if there is a slowdown in UK construction activity. NewERA (2018) also notes, however, that Coillte has achieved €13 million in annual overhead savings over the past two years, which positions the company well to manage Brexit-related threats.

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