

State-owned enterprise sector, 2019

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Overview¹

Table 1 provides an overview of the basic financial performance of the main Irish state-owned enterprises (SOEs) for the 2018 financial year. As highlighted in previous reviews, the results demonstrate the considerable contribution of the SOE sector to the Irish economy. Aggregate turnover for the fourteen companies included in Table 1 was equivalent to approximately 4 per cent of GNI* in 2018, while almost 40,000 people were employed overall. The SOE sector also plays a key role in delivering much needed investment in public infrastructure. In 2018 over €2.5 billion in aggregate capital expenditure was carried out by the SOEs included in Table 1, and many of these companies are at the heart of planned increases in public capital investment over the next few years. In addition, a number of SOEs continue to make a significant contribution to Exchequer finances through the payment of dividends. Just over €262 million in dividends was transferred to the Exchequer in 2018, bringing the total amount paid by the SOEs included in Table 1 between 2008 and 2018 to over €2.85 billion.²

¹ The analysis and discussion presented in this review rely heavily on information provided in SOE annual reports and websites, as well as the *NewERA Annual Financial Review 2018/2019*.

² Source: authors' calculations based on figures included in Exchequer statements and SOE annual reports.

Table 1: SOE financial results for 2018

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	487,183	163,646	122,050	549	143,000	139,089
	Irish Water	982,205	165,644	135,934	836	683,000	–
	BnM	380,442	(50,069)	(49,905)	1,863	29,300	–
	Coillte	330,332	162,854	156,403	806	52,200	15,000
	EirGrid	758,432	82,916	57,287	511	40,165	4,000
Transport	ESB	3,431,820	315,422	60,237	7,874	1,165,000	34,915
	Bus Éireann	390,407	9,748	(6,382)	2,562	26,241	–
	Dublin Bus	304,539	11,639	3,687	3,424	4,953	–
	Irish Rail	496,743	19,307	(1,134)	3,782	79,861	–
	DAA	896,901	173,103	139,544	4,039	132,000	37,400
Communications	IAA	198,922	31,550	31,321	685	32,965	19,458
	Dublin Port	90,374	47,388	41,521	163	87,400	12,173
	An Post	896,954	41,246	25,264	9,723	14,096	–
	RTE	339,105	(698)	(13,003)	1,691	17,800	–
Total		9,984,359	1,173,696	702,824	38,508	2,507,981	262,035

Source: 2018 annual reports and financial statements for each SOE.

Notes: (i) Profit/(loss) for year includes exceptional items; (ii) BnM accounts are as of end of March 2019 and EirGrid accounts are as of September 2018; (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) dividend figures included above reflect amounts paid in 2018 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 €90 million special dividend related to the sale of the Bord Gáis Energy business.

Although many of the SOEs included in this review continue to be profitable operations while at the same time playing a key role in terms of investment in infrastructure in their respective sectors, there are a number of SOEs that are experiencing significant challenges and are consequently in financial difficulty. The next section provides a brief summary of some of the main developments in 2019 across individual SOEs. We focus in particular on loss-making SOEs and those currently undergoing or planning major restructuring. Our review concludes with a discussion of the ‘return’ of public ownership internationally, as well as the important contribution SOEs are making in relation to Ireland’s climate action agenda.

RTÉ

It was another tough year for the state broadcaster. The company’s published results for 2018 showed a sizeable net loss of €13 million. Although RTÉ had recorded profits of over €42 million in 2017, this was largely explained by the sale of land at its Donnybrook studio, and the company’s return to loss-making in 2018 continued a worrying recent trend which is likely to continue into the near future. As highlighted in previous reviews of the SOE sector (Palcic & Reeves, 2018, 2019), one of the key factors underpinning RTÉ’s financial precarity is the existing TV licence fee system and the high rate of evasion experienced in Ireland. This, coupled with the fact that an increasing number of households do not have a traditional TV set and use other electronic devices to consume public service broadcast content, results in a substantial amount of lost funding for RTÉ and the wider broadcast media sector every year.

After years of political procrastination over the future of the TV licensing system, the government finally announced its plans for restructuring the licence fee system in August 2019. The key elements of the plan involve (i) putting the collection of the TV licence fee service out to tender for a period of five years and (ii), at the end of this five-year period, replacing the existing TV licence fee with a device-independent broadcasting charge. The decision to put the licence fee collection service out to tender could have obvious negative financial consequences for An Post should it fail to retain this service and it will take a number of years to see whether tendering out the service will result in lower evasion rates. While the decision to move to a device-independent fee is welcome, the fact that it will not happen for at least another five years means that RTÉ’s financial difficulties are set to continue for the foreseeable future.

In response to its severe financial situation, RTÉ management announced a cost-restructuring plan in November 2019 that targeted €60 million in savings. The plan envisages 200 redundancies by the end of 2020, a 15 per cent pay cut for the highest-earning presenters, a 10 per cent pay cut for senior management and an indefinite pay freeze for all other staff. It also announced plans to close its Limerick studio and relocate Lyric FM; however, this decision has been deferred until a newly established Commission on the Future of Irish Public Service Broadcasting makes its first recommendations in the autumn of 2020. The independent regulator for RTÉ and the wider sector, the Broadcasting Authority of Ireland, recommended that RTÉ receive a funding increase of at least €30 million a year; however, the government announced in December 2019 that it would only provide an extra €10 million in funding in respect of free TV licences for pensioners (Kelly & Wall, 2019).

RTÉ have stated that the broadcaster will still face a funding gap of €10 million to €12 million despite the government's additional funding and that its financial situation will remain untenable given that the move to a device-independent charge is unlikely to take place until at least 2026 (Kelly, 2019). There is no doubt that the decision not to implement any significant reform of the TV licensing system is a purely political one, with the government reluctant to make any move that could be seen as introducing another tax on households with a general election expected in early 2020. Unfortunately, RTÉ and public service media in general will continue to suffer the consequences of this sustained failure to introduce meaningful reform to a severely outdated system.

Bord na Móna (BnM)

BnM experienced one of the worst years in its 85-year history, with the company reporting a massive operating loss of over €50 million for the financial year ending March 2019. As with the operating loss of €6.2 million incurred in the previous year, the main drivers of this poor performance were exceptional charges related to the restructuring of the company's core activities. These amounted to €91.4 million and mainly related to the cost of redundancies and asset write-downs for peat-related assets. Despite the significant loss incurred, BnM's underlying financial performance improved, with operating profits before exceptional charges increasing from €33.2 million as of March 2018 to €41.3 million as of March 2019, while debt decreased from

€76.1 million to €22.9 million over the same period. Nevertheless, the scale of restructuring required at BnM means that is likely to incur continued exceptional charges in the near future as it implements the radical overhaul of its operations that commenced in October 2018 and will see the company exit the peat-supply business entirely by 2030.

BnM's short-term financial outlook was dealt a further blow in November 2019 when the ESB announced the closure of its peat-burning plants at Shannonbridge and Lanesboro in Offaly. The decision followed An Bord Pleanála's refusal to grant permission for the redevelopment of the plants from burning peat to biomass, which would have seen the plants continue to burn peat past a December 2020 deadline until 2027 (Hamilton, 2019). The sooner than expected closure of both plants, which indirectly impacts on hundreds of jobs at BnM, will put further pressure on the company as it transitions towards a business centred around renewable energy and waste recycling activities. In more positive developments, BnM's joint venture wind farm with the ESB at Oweninny in Mayo opened in October 2019. In the same month, BnM announced plans to partner with Coillte and plant more than half a million trees on former bogland over the next three years as part of the company's commitment to decarbonisation. BnM also opened Ireland's first tyre recycling plant in Drogheda at the end of 2018 and Ireland's first plastic recycling facility at its former Littleton briquette factory in Tipperary in July 2019.

An Post

An Post's recovery in 2019 continued apace with the company reporting operating profits of over €41 million and net profits of over €25 million for 2018. This stands in stark contrast to the situation the company faced just two years previously when it was one of the most significant loss-makers in the SOE sector. The company's improved financial performance builds on the return to profitability achieved in 2017, which had largely been driven by an increase in the price of stamps and exceptional revenues from the sale of property. The main driver of improved performance in 2018 was a considerable increase in packets and parcel volume, which saw 40 per cent year-on-year growth that more than offset the decline in traditional mail volumes that An Post is experiencing. In January 2019 the Gift Voucher Shop, in which An Post was the majority shareholder, was sold in a deal that valued An Post's stake in the business at €54 million. These exceptional

revenues for 2019, along with the improved financial results recorded in 2017 and 2018, will allow An Post to continue to invest in the transformation of the post office network and the development of its financial services and ecommerce activities in order to ensure the viability of the company going forward.

An Post's digital transformation plans were given a significant boost in October 2019 when the European Investment Bank agreed a €40 million loan package to support the company's planned €82 million investment over the next three years in restructuring its business away from traditional activities. As part of the rollout of this strategy, An Post opened a new €15 million parcel hub in Clondalkin in December 2019. The 50,000 square-metre facility is capable of processing 13,000 parcels per hour and is almost entirely automated. Increased automation of parcel processing will lead to reduced staff numbers in the near future; however, An Post does not expect significant redundancies as a result of its transformation agenda (Burns, 2019).

Dublin Airport Authority (DAA)

The DAA recorded considerable year-on-year growth in turnover, operating profit and profit after tax for 2018, continuing a sustained trend in improved financial performance that has largely been underpinned by ever-increasing passenger numbers at Dublin Airport. The airport saw passenger numbers increase for the eighth year in succession, while Cork Airport has also seen traffic growth in each of the past three years. The DAA announced a €40 million dividend to be paid in 2019 in respect of the 2018 financial year, bringing the total amount transferred to the Exchequer by the company since 2015 to €125 million. Construction work on the new second runway commenced in January 2019 with the €320 million project set to be completed in 2022.

The DAA's planned €2 billion programme of expansion at Dublin Airport to facilitate the handling of up to 40 million passengers by 2030 was dealt a blow in October 2019 when the Commission for Aviation Regulation (CAR) published its passenger charges ruling for the 2020–4 period. The CAR ruled that the DAA should cut passenger charges to an average of €7.87 per passenger over the five-year period, a significant drop on the €9.65 levy that was permitted in 2018. The DAA announced in December 2019 that it was appealing the ruling as it would severely restrict its ability to progress its investment plans for Dublin Airport in the coming decade (O'Halloran, 2019).

CIE Group – Bus Éireann, Irish Rail and Dublin Bus

Following a period of severe financial difficulty, Bus Éireann reported significant improvement in 2018. Buoyed by the growing national economy, passenger growth levels were the highest since 2008, which contributed to a 9.1 per cent increase in operating turnover. The company continued to implement the business transformation programme that followed the Labour Court recommendation of June 2017. Ongoing changes to work practices delivered savings of approximately €20 million in 2018 and contributed to the company recording operating profits of €9.7 million compared to just €2.8 million in 2017. A net loss after exceptional items of €6.4 million was incurred for 2018, which was down considerably on the €23.6 million loss recorded the previous year. Encouragingly, when the exceptional cost related to the repayment of the schools reserve to the Department of Education and Skills is excluded, the company broke even for 2018. An important development for the company was the approval of a €37 million recapitalisation through an acquisition of shares by CIÉ, which ensured that Bus Éireann met the minimum reserve required to renew its Road Passenger Transport Operating Licence.

Despite reporting record passenger numbers in 2018, Irish Rail made a net loss of €1.134 million in 2018 (compared to a loss of €1.065 million in the previous year), which compared unfavourably with a forecast surplus of €6.7 million. Factors that contributed to this deficit included a reduction in the public service subvention of €5.7 million compared to 2017 and the loss of revenues that amounted to €1.2 million due to adverse weather conditions in the first quarter of 2018. The company's accumulated losses remain extremely high (totalling €155 million at the end of 2018) and the company's solvency remains an issue for concern. Ongoing uncertainty around Brexit poses challenges for Irish Rail, especially around Rosslare Europort, which is operated as a division of the company. A €25 million investment plan has been proposed over the next five years to grow business, enhance port facilities and prepare for all Brexit scenarios.

As in the last two years, Dublin Bus was the only company within the group to report net profits in 2018 (€3.7 million compared to €1.0 million in 2017), as passenger numbers continued to grow. Dublin Bus now operates in a new environment of greater market liberalisation and was required to facilitate the transition of public service obligation routes to a new private operator in 2018. In addition, the company continues to engage with the major overhaul of its network –

‘BusConnects’ – which was revised in mid 2019 and is now envisaged to be implemented between 2021 and 2023.

ESB

The ESB reported net profits after exceptional items of just over €60 million in 2018, a substantial turnaround on the loss of almost €32 million it incurred the previous year as a result of exceptional impairment charges related to new Integrated Single Electricity Market rules that came into force in 2018. Continued adjustment to these new rules underpinned an exceptional impairment charge of €140 million in 2018, while operating profits also decreased from 2017 due to increased operating costs and lower energy margins. When exceptional charges are excluded, net profits after tax were €181.3 million, a decrease on the pre-exceptional-item net profit of €208.9 million reported for 2017. In 2019 the ESB made a number of significant moves towards the future development of offshore wind-related energy generation assets. It announced in January 2019 that it would be partnering with Belgian operator Parkwind to develop a wind farm off the coast of Louth. In November 2019 it also announced that it would be partnering with Norwegian operator Equinor to develop further wind farms off the Irish coast and hoped to have these operational by 2030 in order to meet the government’s target of 70 per cent of electricity generation from renewable sources. In the same month, the ESB announced that it had purchased a 50 per cent stake in a Scottish offshore wind farm project owned by France’s EDF.

Irish Water

Irish Water recorded operating profits of €165.6 million and profits after tax of €135.9 million for 2018, both of which represented a considerable decline in profitability compared to the previous year. This was primarily due to lower revenues because of a decrease in government subvention and an increase in operating costs attributed to the severe weather experienced at the start of 2018. There were a number of challenges for Irish Water in 2019, mainly in the form of water treatment and wastewater treatment issues, many of which are inherited issues for the company. The most notable of these affected 600,000 people in October, when a water treatment plant in Leixlip failed, resulting in the issuing of the largest ever boil notice in the country. The notice continued in effect for nearly three weeks, until mid November.

In December 2019 a pump failure at Irish Water's waste treatment plant in Ringsend, Dublin, resulted in a considerable risk of sewage overflow at the facility. The plant, which processes approximately 40 per cent of Ireland's wastewater, has been operating far in excess of capacity and releasing sewage into Dublin Bay for a number of years now. Construction work to provide additional capacity is currently underway and due to be completed in 2020. Irish Water was granted planning permission for the construction of a new large wastewater treatment plant at Clonsaugh in November 2019, but the project is currently the subject of a legal challenge and may end up being delayed, which could put further pressure on the Ringsend facility in the future (O'Sullivan, 2019a). In December the Cabinet also approved new legislation to allow the controversial 170 kilometre Shannon pipeline project, with a projected cost of €1.3 billion, to proceed. The project will involve water from the Shannon being supplied to Dublin and other urban areas in surrounding counties. The proposed pipeline has faced strong opposition from many living along the lower Shannon, as well as others who would prefer investment be redirected towards repairing faults in the water network instead, where leakage rates in Dublin in particular are extremely high (O'Sullivan, 2019b).

Coillte

Coillte recorded record revenues of €330 million and a record EBITDA (earnings before interest, taxes, depreciation and amortisation) of €115 million in 2018. The company's strong financial performance, coupled with €92.9 million in exceptional profits generated from the sale of Coillte's stake in four separate wind farms, allowed it to reduce its net debt from €153.6 million in 2017 to just €14.1 million at the end of 2018. In July 2019 the company established a new not-for-profit subsidiary, Coillte Nature, which will focus on generating social dividends through the conversion of some commercial Coillte forests to recreational forests, as well as the delivery of new woodlands. In October 2019 Coillte Nature and BnM announced that they would be collaborating on a project that would see up to 600,000 native trees planted across some 1,500 hectares of BnM land that is no longer used for peat production over the next three years. Going forward, the biggest threat to Coillte's financial performance remains the uncertainty around the nature of Britain's exit from the EU and the impact this will have on the company's significant export sales to the UK.

The return of public ownership and its potential to meet the big global challenges

The scale of the widespread adoption of privatisation and marketisation policies in the last quarter of the twentieth century was such that by the turn of the century public enterprise appeared to be a thing of the past. Notwithstanding the transfer of vast swathes of SOEs to private ownership, the reality is that public enterprise never really went away. In Ireland, for example, despite the implementation of a significant degree of divestiture of SOEs from the early 1990s onwards, SOEs are still important providers of goods and services in vital sectors such as energy, transport and communications.

In international terms public ownership has come back into the centre of mainstream policy debate. In the UK, the cradle of modern privatisation policies, the Labour Party's manifesto for the 2019 general election promised to 'put people and planet before profit by bringing our energy and water systems into democratic public ownership' (Labour, 2019, p. 15). It also promised to end the ongoing privatisation of the National Health Service and railways and to bring services such as bin collection and management of local leisure centres back in-house. Despite the landslide defeat of the Labour Party in the recent UK election, these promises reflect a growing international trend in favour of public ownership and control of certain industries and services, as well as a reversal of privatisation policies that were extensively implemented during the 1980s and 1990s.

Different labels have been used to describe this shift towards public ownership and control. In some cases, it involves nationalisation where the state brings privately owned enterprises under public ownership. This was particularly widespread in the financial sector after the global financial crisis and subsequent economic downturn. In other cases, the surge of public ownership involves the reversal of earlier privatisations at the national level (renationalisation) and at the local government or municipal levels (remunicipalisation). The latter has become a global phenomenon since the early 2000s, with completed cases of privatisation reversals documented on every continent, as well as ongoing campaigns in places as diverse as Jakarta, Paris, Houston, Atlanta, Dar-es-Salaam and Berlin (Kishimoto & Petitjean, 2017). According to Cumbers (2018, p. xii), 'France, the United States and Germany have become the unexpected epicentres of remunicipalisation'.

The continuing importance of public ownership is described by Bernier & Reeves (2018). They quote a report by the OECD (2017), which found that central governments in the countries covered in their study (excluding China) are full or majority owners of 2,467 commercially oriented enterprises. In aggregate terms these enterprises are valued at over USD\$2.4 trillion and they employ over 9.2 million people. The OECD report highlights how these SOEs are highly concentrated in network industries and the financial sector. SOEs operating in the transportation, telecoms, electricity, gas and other utilities sectors account for 51 per cent of aggregate value and 70 per cent of total employment. The largest individual sector in terms of value is the financial sector, which accounts for 26 per cent of aggregate SOE value.

The scale of the recent revival of public ownership is such that Megginson (2018), a proponent and authority on privatisation, concluded that its 'golden era' was complete and that the trend in this direction has at least been slowed and perhaps even reversed due to a global resurgence of state ownership (which he labels 'state capitalism'). This conclusion may be premature as influential multilateral organisations such as the World Bank, International Monetary Fund, OECD and EU continue to encourage privatisation and other related policies. Moreover, available evidence shows that the current period in the aftermath of the global financial crisis is characterised by concurrent shifts towards public ownership in some sectors but towards private ownership in others (Voszka, 2017).

One of the factors underpinning the apparent revival of public ownership is the ongoing relevance of market failure arguments that provided some of the most important rationales for the historical establishment of SOEs, particularly after the Second World War. SOEs remain an important tool that governments can employ to address market failures and the need to provide vital services to less profitable populations and geographies such as rural areas and those characterised by a concentration of low incomes. They also serve as an important instrument for correcting negative externalities such as environmental degradation or the destabilisation of the entire global financial system that occurred during the 2008–9 period.

Public enterprise is therefore being increasingly viewed as a potentially powerful instrument for addressing some of the world's biggest challenges in the twenty-first century, including economic inequality and climate change. In Ireland there is now explicit recognition that SOEs have a leadership role to play in achieving the

goals of the government's recently published *Climate Action Plan*. The long-term objective of decarbonisation will require major investment by the public sector and the expected leading role of the SOE portfolio is explicitly referenced in 23 of the 183 actions listed in the 2019 *Climate Action Plan* (Department of Communications, Climate Action and the Environment, 2019).

NewERA (2019) provides an extensive description of the direct role that SOEs will play in meeting the objectives of the plan. This will cover aspects such as phasing out coal- and peat-fire generation; harnessing renewable energy sources such as wind (onshore and offshore) and solar; developing electricity storage and interconnection infrastructure; using renewable electricity and gas to power vehicles; providing electric vehicle charging networks and investing in low emission buses and hybrid trains; and adopting measures to ensure carbon abatement from land use (including forests and peatlands).

The appreciable scale and extensive operations of SOEs in sectors whose activities have great environmental consequences, both in Ireland and abroad, are such that they must inevitably play a pivotal role in addressing the challenges of decarbonisation. While most of the main SOEs in Ireland are in the process of transitioning to more sustainable business models, there is still a long way to go on this journey and it is vital that the mechanisms in place to govern SOEs are suitably designed and that SOEs are directed and incentivised to meet these major challenges.

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