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PUBLIC ENTERPRISE IN IRELAND
A STATISTICAL DESCRIPTION AND ANALYSIS

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1. INTRODUCTION

There is much debate on the role of public enterprises, but little analytical work has been done on the subject in Ireland. Fitzgerald (1961), Bristow (1964/65, 1968, 1969 and 1982), Jacobson (1978), the National Economic and Social Council (1980), Dorgan (1984 and 1986), the Joint Oireachtas Committee on State Sponsored Bodies (October, 1986), McDowell (1987), Walsh (1987) and Sweeney (1988a) have undertaken studies, the majority of which have been largely descriptive, and there also have been individual case studies of enterprises, for example, on Aer Lingus (O'Donoghue, 1968/69), Bord na Mona (Bristow and Fell, 1971), the ESB, (Roche, 1978) (Manning and McDowell, 1984), NET (Blackwell et al., 1983). In addition there have been institutional examinations of enterprises, the most important of which are the reports of the Joint Oireachtas Committee on State Sponsored Bodies (JOCSSB) on individual enterprises, and there have been government sponsored consultant examinations, for example, McKinsey on CIE (1971 and 1980), and Fletcher (1971) and Jakobsen (1984) on the ESB.

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This paper is an analysis of the non-financial, commercial public enterprises in Ireland. Commercial state enterprises are defined as those which earn more than half of their incomes or sales revenue from the sale of goods or services. All, except two (CIE and RTE) of the seventeen companies[1] analysed (listed in Appendix 1), earned virtually all of their income from trading in goods or services. The companies operate in air, sea and internal transport, postal and telecommunications, manufacturing, broadcasting, refining, extractive industries and include electricity and gas utilities.

The study is both an aggregate and individual statistical analysis of seventeen enterprises over the eight-year period 1980 to 1987 inclusive (two major enterprises, Bord Telecom and An Post, were only established in 1984 and two others, Irish Shipping Limited (ISL) and Ceimici were both put into liquidation in that period). Those fifteen companies which exclude the new ones established in 1984 will be called the original companies. The paper begins with an examination of the size of the commercial public enterprise sector in Ireland, its contribution to national aggregates such as GNP and employment, and analyses the size of the profits (or losses) of the companies, profit ratios, size of assets, and rates of return on assets and on the investment in the companies by the Exchequer. The relationship between the sector and the banking sector is explored, including the size of cash deposits, amount of foreign loans, interest paid and received and aggregate loans. In conclusion the actual aggregate flows, (both current and capital) to and from the Exchequer are also analysed in the period.

Economic Background

The eight years under review were among the worst for the Irish economy in many years, with real GNP actually falling in four years, and only growing by 2.4% in the whole period, an annual average growth rate of only 0.3%. In contrast, it had grown by 3.1% annually in the previous eight years. Interest payments on the national debt doubled to 5.1% of GNP between 1980 and 1985, and the debt itself rose from 76.8% of GNP to 150% by 1987. Real rates of interest, which are very important to the companies analysed because of their high indebtedness, were high from 1983 (Central Bank Reports and CSO). Total employment fell by almost 6% in the period, compared to a rise of 9.8% which occurred between 1975 and 1980, while total manufacturing employment alone fell by 22% in the same period (Industrial Employment, CSO). Unemployment had actually fallen in the previous five years from 90,000 to 76,000 in 1980, but it had more than trebled by 1987, and reached the quarter of a million mark in May of that year (Live Register, CSO). Thus, it can be seen that the economic background in the period was extremely poor and the performance of the companies should be viewed in this context.

2. PUBLIC ENTERPRISES IN NATIONAL AGGREGATES

Commercial public enterprises make important contributions to the national economy through their contribution to gross domestic product, capital stock, capital formation and employment. Table 1 is a summary table of the contribution of the commercial public enterprise sector to the Irish economy in 1987. It shows that this sector's contribution to gross national product (GNP) amounted to 10.2%. It accounted for 6.3% of employment and over 18% of gross capital formation, showing the relatively high capital intensity of the sector. The sector has some of the largest employers in the country. For example, in 1987, commercial public enterprises accounted for the first four of the five largest employers in the country, six of the top ten employers and eight of the eighteen companies which employed more than 2,000 employees in 1987 (Business and Finance).

Table 1: Public Enterprise* in the Irish economy in 1987

Contribution to GNP	10.2%
Capital Stock	5,468 million
Contribution to Gross Fixed Capital Formation	18.2%
Number Employed	68,883
Proportion of total Employed	6.3%

*Fifteen companies listed in Appendix 1, excluding Irish Shipping and Ceimici Teo., (both in liquidation), but including the newly established Bord Telecom and An Post.

Sources: Companies' Annual Accounts and National Income Accounts, CSO, 1987.

Contribution to GNP

The contribution to GNP made by the companies is the sum of their factor payments. This figure is derived by the addition of:

profits gross of depreciation
interest payments made
rents
labour costs

In 1987 the contribution to GNP by 13 of the original 15 companies (excluding Irish Shipping and Ceimici, which had been put into liquidation in 1984 and 1986 respectively) amounted to £1,227 million. This amounted to 6.9% of GNP in 1987, compared to 6.3% in 1980. When Bord Telecom and An Post are included, the figure amounted to £1,828 million, or over 10% of GNP in 1987. Labour costs (which includes wages, salaries, pensions and employers' social security contributions) were the largest element at £1,069 million in 1987. Gross rents amounted to only £30 million. Profits, gross of depreciation (and including amortisation), amounted to £366 million in 1987 and interest payments totalled £361 million. Overall factor payments totalled £570.2 million in 1980, when profits, after depreciation and interest, were negative with a substantial loss of £79.8 million. (Factor payments included all payments by BGE to Dublin Gas totalling £89m from 1983, and excluded Aer Lingus's foreign labour costs).

Table 2: **Contribution of Public Enterprises to GNP**

Year		Inclu.	T.E & Post	
	£M	%GNP	£M	%GNP
1980	570.2	6.3	-	-
1981	720.2	6.6	-	-
1982	905.2	7.3	-	-
1983	991.3	7.2	-	-
1984	1160.5	7.8	1572	10.6
1985	1191.2	7.6	1829	11.7
1986	1259.8	7.6	1799	10.8
1987	1227.0	6.9	1828	10.2

Sources: Annual Reports and National Income Accounts 1987.

The contribution of Ireland's public enterprises to GNP, which can be seen in Table 2, can be compared to the UK where it was 10.7% in both 1980 and in 1983 according to Curwen's study (1986) of British public enterprise. An earlier study of the nationalised industry by Pryke (1981) found that the contribution to GDP in the UK in 1977 amounted to 12.7%. It included more companies than Curwen and so the figure is larger. UK figures are slightly higher because they include the water authorities and development boards, some financial enterprises e.g. the Royal Mint and the Bank of England (had Ireland's Central Bank, the most profitable state enterprise in the country, been included in this study, the results would be substantially altered). Since the early 1980s, many UK nationalised industries have been privatised and so the sector has been substantially reduced. In Ireland the level of privatisation has been small and the establishment of Caoillte in 1989 increases the size of the sector substantially, as the Forestry Act 1988 provides for an authorised share capital of £1,000 million.

A study by Shirley of the World Bank (1983), indicated that the size of Ireland's public enterprise sector is in the middle range of the developed countries, judged both by contribution to GDP and to gross capital formation. While the exact bases vary slightly, in common with most international comparisons of this nature, and the years vary, they do give a good general indication of the size of the sector in the various countries, as can be seen in Table 3.

Table 3: Contributions of Non-Financial Public Enterprises in the Industrialised Countries to GDP and GFCF

	Share in GDP (at factor cost)		Share in Gross Fixed Capital Formation	
France	17.0[1]	('83)	12.1	('78-81)
Austria	14.5[1]	('78-79)	19.2	
United Kingdom	10.9[2]	('78-81)	17.0	
Australia	9.4[3]	('78)	-	
Portugal	9.7	('76)	33.2[(2)(4)]	('78-80)
Ireland	8.0	('82)	11.8	('78)
Italy	7.5[1]	('78)	15.2	('79-80)
Denmark	6.3	('74)	-	
Sweden	6.0	('78-80)	11.4	('78-80)
Spain	4.1[1]	('79)	15.6	('78-80)
Netherlands	3.6	('71-73)	12.6[4]	('78)
Germany	1.0	('79)	10.8	('78-79)
Japan	-		11.4[4]	('78-79)
US	-		4.4[4]	('78-80)

[1] Share in GDP at Market Prices.
[2] Includes Financial Enterprises.
[3] Includes Some Local Enterprises.
[4] Share in gross capital formation, including stocks.

Source: Shirley, 1983.

An IMF study by Short (on which much of Shirley's data was based) found that between 1974 and 1977 the contribution of public enterprises to output in the industrialised countries averaged 9.6%, and their contribution to investment averaged 11.1% (Ireland's share of investment in the period, which included the Post Office, was put at 13.1% in that study, a good deal smaller than the figure in Table 1. This is possibly because of the subsequent higher level of investment by major companies in the sector, such as the ESB and Telecom). For all the countries for which data was available, the figure averaged 13.5% of capital formation, and when the US was excluded, this figure rose to 16%. Again excluding the US, output share of GDP averaged 9.5%.

Contribution to Gross Capital Formation

The contribution made to gross investment is calculated by gross additions to capital stock, i.e. net additions to fixed capital in the accounts of the companies, plus depreciation. It rose from £314.4 million in 1980 to £501 million or 14.2% in 1982 and £626.6 million or 18.4% in 1987, (including Telecom and An Post). From Table 3, it appears that Ireland is below the median in the capitalist industrialised countries for public enterprise investment, but as Table 1 revealed, in 1987 the sector made up over 18% of investment in fixed assets, placing Ireland near the top of the league.

In the UK, public enterprises contributed between 16% and 16.2% to gross capital formation in 1980 and 1982 respectively, according to Curwen (1986), who pointed out that they are also more capital intensive than average companies in the UK.

3. EMPLOYMENT, PRODUCTIVITY AND EARNINGS

Employment

By international standards, Irish public enterprises are relatively important in their contribution to employment, though not as important as in some other industrialised countries, as Table 4 shows, (which covers the countries with the largest sectors).

Table 4: Employment in Public Enterprises in Industrialised Countries, 1982

Countries	(% total employment)
Italy	26.8
Austria	14.3
France*	14.6
Germany	8.9
UK	7.4
Sweden	7.0
Ireland	7.0

* of non-agricultural employment

Source: H. Parris et al, 1987.

Total employment in the 15 original companies (excluding Telecom Eireann and An Post) was at its peak of 55,890 in 1980, and it fell progressively to 50,666 by 1984, a drop of over 9% in these five years. Nationally employment fell by 6% between 1980 and 1987 according to Labour Force estimates (CSO) and while the commercial state sector shed a greater proportion of its labour force than the rest of the economy in this period, it was less than the decline in manufacturing employment which was 22% in the period.

Total employment in the fifteen original non-financial companies was 4.8% of all employment in 1980. When An Post and Telecom, with an average of 26,942 employees in 1980 are included, then the total was 82,832 in that year. In 1987 employment, including An Post and Bord Telecom, amounted to 68,010 (year-end figures) or 6.3% of those employed (Labour Force Survey 1987). The jobs were shed through early retirements, and redundancy, both voluntary and compulsory.

The total decrease in commercial public enterprise employment in the eight year period to 1987 was 14,822. Thus there was a decline of 17.9%, and while less than the fall of 22% in manufacturing employment in the period, it was more than three times the level of decrease in the economy as a whole, which was 5.9% (Labour Force Surveys 1987 and CSO estimates for 1980). While eight of the seventeen companies in Table 5 were industrial companies, they[2] only employed around 17% of those in the sector in 1980. Therefore while comparison with the economy as a whole is not strictly accurate, it is a better criterion than industry.

The "organic" decline in employment was even higher because of two nationalisations (Dublin Gas and the Irish Refining Company) which brought in a total of 800 workers (although only a proportion of the former are included here). In addition, there were two liquidations, one large company - Irish Shipping, (a proportion of its jobs were retained on the privatisation of its subsidiary, ICL, and these are excluded), and one small company Ceimici.

Table 5: Changes in Employment, 1980 - 1987

	1980	1987	Change %
Aer Lingus	6775	5960	-12
Aer Rianta	1958	1670	-15
Arramara	36	25	-31
Bord Gais	56	454	+711
Bord na Mona	5804	4687	-19
B & I	2066	1411	-32
Ceimici (liquidated)	143	-	-100
CIE	17610	14016	-20
CSET - Irish Sugar	3558	1855	-48
ESB	12309	11383	-8
Irish Nat. Petroleum Corp.	16	181	+1031
Irish Shipping (liquidated)	968	-	-100
Irish Steel	733	522	-29
NET	1498	636	-58
RTE	2360	2258	-4
Bord Telecom]	26942	14560	-15
An Post]		8392	
Total	**82832**	**68010**	**-17.9**
Proportion of those at Work	7.2%	6.3%	

Sources: Annual Reports and Companies.

Note: These figures refer to year-end numbers as given in annual reports, whereas other data on employment is on an annual average basis, computed on the calendar year.

Within the 15 companies under review, which remained in 1987, there was a general decline in employment, but two increased their workforces. These were BGE, which was an expanding company, but its takeover of Dublin Gas gave it approximately 700 additional employees, (though only a proportion of these were included in the year 1987) and INPC which took over the Whitegate refinery and other assets.

The sector's contribution (including Bord Telecom and An Post) to employment fell from 7.2% of those at work in 1980 to 6.3% in 1987 (Labour Force Survey 1987 and CSO Estimates). The fall was equivalent to more than 6% of registered unemployment in 1987. The rate of job losses substantially increased after 1984 and it is likely that in 1987/88 the rate of decline was even more rapid, because this was the year in which the public service redundancy programme was at its peak. The low level of profitability of the sector and because many were in industries which were suffering from over-capacity meant that job losses were inevitable with restructuring.

The decrease shows that the sector is not an area where jobs can be expected to be created, as adverted to in the Programme for National Recovery[3]. It will be a very long time before the commercial public enterprises create as many jobs as were shed in the first eight years of the 1980s.

Earnings and Productivity

The average increase in gross nominal earnings per employee (which includes both employer and employee pension and PRSI contributions) in the sector was 103% in the seven years to 1987. Average industrial earnings in manufacturing as a whole rose by 104% between 1980 and 1987 (annual averages). Thus employees in these companies fared much the same as those in manufacturing industry in this period. The rate of increase in most state companies came close to the industrial average, but CIE's waged employees were below it with an increase of 92% in the period.

Table 6. LABOUR COSTS IN PUBLIC ENTERPRISES*

(1987 Constant Prices)

Table 6. Labour Costs in Public Enterprises* (1987 Prices)

	1980	1981	1982	1983	1984	1985	1986	1987
Labour Costs per Person	£14,054	£13,675	£14,254	£14,063	£13,846	£14,328	£14,851	£15,519
Total Labour Costs (£m)	£786	£755	£773	£747	£1,070	£1,[illegible]73	£1,083	£1,069
Income or Revenue per person	£45,310	£45,847	£50,001	£55,324	£46,141	£49,[illegible]74	£46,410	£47,877
Labour Costs as %age of Income/Revenue	31.00%	29.00%	28.50%	25.40%	30.00%	29.00%	31.80%	32.40%

*Excludes: Celmiol, INPC (1980-82 inclusive) and Irish Shipping Ltd (from 1984) and includes An Post, Bord Telecom from 1984.

Source: Annual Reports.

Table 6 shows that labour cost per person did not rise in real terms by any significant amount in the period under review. Total labour costs, which includes pensions, employers PRSI etc., appeared to rise substantially in real terms in 1984, but this was due to the inclusion of Telecom and An Post. Labour costs as a percentage of income fell from 31% in 1980 to 25.4% in 1983, and rose substantially to 30% the following year according to the Table, but this reflects the inclusion of Telecom and An Post. If these companies are excluded, the figures for 1984 and 1987 are 25% and 28.8% respectively.

The highest average paid employees within the sector in 1980 were in Aer Lingus, at £10,763 gross, followed by Aer Rianta and BGE, with Arramara employees having the lowest average earnings, followed by Bord na Mona, with the next lowest. In 1987, the highest average earnings were still in Aer Lingus at £29,607, (including pensions etc.), but this particular figure (unlike those in Table 6) included earnings of foreign employees. Irish employees' earnings averaged approximately £20,729. Those in the INPC were the top gross earners at £25,260. Refining has historically been the highest paying manufacturing sector in Ireland (Manufacturing Earnings, CSO). Next highest in 1987 for average earnings was RTE at £21,562, followed by Irish Steel, BGE and NET. Lowest earnings per employee in 1987 was still Arramara at £10,760 gross, followed by Bord na Mona and then An Post and CIE, reflecting the widespread educational and skill requirements of the different companies.

While it is not possible to measure productivity growth in some of the companies such as RTE or Irish Steel because output is too diverse, labour productivity rose in the period in most companies. For other companies no data was available for output. It is also difficult to gauge whether a rise in productivity occurred because of capital investment or better management of labour.

4. PROFITABILITY OF PUBLIC ENTERPRISES

Aggregate Figures

In the eight years 1980 to 1987 inclusive, the aggregate Profits Before Interest and Tax (PBIT) of the non-financial commercial state companies was positive and growing each year. The aggregate PBIT for all companies, at £395 million, made up 11.6% of all corporate profits in the state in 1987 (National Income and Expenditure Accounts, 1987). This figure had risen from £46 million or 4.7% in 1980, as Table 7(i) shows.

It can also be seen from Table 7(i) that aggregate Net Profit (profit after depreciation and interest payments) was negative in the first four of the eight years where Telecom and An Post are excluded and when included, there was also an aggregate loss in 1984. The negative or low net profits reflects the high gearing of the sector. Total long term loans outstanding to the banks in 1987 (calendar year) stood at £2,202 million (though total loans to all agencies amounted to £3.5 billion). Total interest payments paid to the banks in that year were £333 million and these companies, in common with the corporate sector in general, paid little tax (Stewart, 1987).

The companies pay substantial amounts of interest and if it is added back, they would make the following net profits for the first five years, £43.922m, £96.654m, £174.551m, £207.063m and £276.037m (excluding Telecom and An Post). Thus the companies can and do service their loans.

The key ratio is that of PBIT to net assets, and it was positive and growing, rising from 3.1% in 1980 to 11.2% in 1984 and falling to 8.4% in 1987 (for the original thirteen companies). This figure is important because it reflects the trading performance of the companies before charges, and it shows that had the companies not incurred so much debt, then they would have returned net profits. The ratio of PBIT to gross assets was also positive in all years, but the net profits (that is, in this case, losses) to both gross and net assets was negative for the first four of the eight years for the original companies and for the first five where the two new companies are included.

The ratio of PBIT to sales was positive and increased each year to 1986 for all companies. An IDA survey (IDA, 1985) showed that Irish indigenous industry had profit margins of 1.07% of sales in 1983, which compares to -1.66% on sales in the case of the fifteen state companies in that year. However, the average return for all companies in the survey was 7.82%, with overseas companies returning 16.07%. So it can be seen that the rate of return of the commercial state companies was not out of line with that of Irish indigenous companies, judged by the net profit to sales ratio.

In these calculations of profits, the ESB's amortisation charge, which is substantial, was excluded, in line with the ESB's own interpretation of the 1927 Electricity Act which requires it to break even, thus reducing the aggregate net profit figure each year. Had it been added to profits, then there would have been aggregate net profits for all but two of the years under review. On the other hand, the current grant paid to CIE was included in profits in accord with SSAP No. 4 in Table 7(i), which takes the profit figures as presented in the published accounts by the companies.

For comparative purposes CIE's subsidy and the ESB's amortisation charge were included in Table 7(ii) and details of these two items are given in Table 7(ii)(a). The result is that the profits and ratios are substantially reduced. Alternatively, it can be argued that a third method of calculating aggregate profits, which includes the amortisation charge in profits and includes the CIE subsidy because the CIE grant is validly given, and because it and the amortisation charge should be treated in the same way as they would be in private companies' accounts. This method gives higher profit figures than Table 7(i) or 7(ii).

The average rate of return of 72 companies in Ireland, (which includes commercial public enterprises) judged by net profit before tax, (but after interest) on net assets or capital employed was 4.9% in 1982-83, 3.8% in 1983-84 and 4.5% in 1984-85, according to the Business Ratio Report (1986). However, these figures present certain difficulties for comparative purposes because various companies have different year-end dates and there is inconsistent treatment of profits, i.e. exchange rate gains or losses may or may not be included in profit computations, as may revaluations of assets, grants, etc. The comparable figures for the state companies were negative, being -1.7% for 1982, -1.5% for 1983 and -1.4% for 1984. However, the computations of net assets used for the state companies, is gross assets less current liabilities, for the Business Ratio Report (1986) is total assets less all liabilities. This means that the ratios for the state companies were lower than they would be had the criteria used in the Business Ratio Report been used. Table 7(i)(a) shows the return on paid up capital, and shows that the companies could have paid dividends, if their debts were lower. An analysis of the reasons for the poor aggregate financial performance of the sector will be attempted at the end of the paper.

Table 7 (i). PROFITABILITY: AGGREGATE GROSS AND NET PROFITS AND RATES OF RETURN ON GROSS AND NET ASSETS

Original Companies (excluding Telecom Eireann and An Post)	1980	1981	1982	1983	1984 (1)	1985	1986	1987
PBIT (2) (3)	45.667	99.041	175.457	197.511	285.447	329.00	287.88	255.50
PROFIT (after deprec. & interest)(net profit)	-79.8	-74.9	-36.5	-38.3	36.1	65.18	23.21	17.70
Income/Sales Revenue (4)	1368.841	1668.7	2024.7	2396.37	2613.38	2791.05	2553.40	2559.24
GROSS ASSETS (5)	2019.5	2443.7	2943	3271.3	3347.26	3593.33	3685.29	3822.76
NET ASSETS	1470.4	1835.3	2180.7	2483.2	2538.30	2802.01	2915.32	3047.08
Profit Ratios %								
PBIT/Gross Assets	2.26%	4.05%	5.96%	6.04%	8.53%	9.16%	7.81%	6.68%
NP/Gross Assets	-3.95%	-3.07%	-1.24%	-1.17%	1.08%	1.81%	0.63%	0.46%
PBIT/Net Assets	3.11%	5.40%	8.05%	7.95%	11.25%	11.74%	9.87%	8.39%
Net Profit/Net Assets	-5.43%	-4.08%	-1.67%	-1.54%	1.42%	2.33%	0.80%	0.58%
PBIT/Sales or Income	3.34%	5.94%	8.67%	8.24%	10.92%	11.79%	11.27%	9.98%
Net Profit/Income or Sales	-5.63%	-4.49%	-1.80%	-1.60%	1.38%	2.34%	0.91%	0.69%

Including Telecom Eireann and An Post	1984	1985	1986	1987
PBIT	330.34	415.50	404.02	395.19
PROFIT (after deprec. & interest)	-28.07	25.20	11.62	30.86
Income/Sales Revenue	3158.05	3431.91	3229.80	3297.95
GROSS ASSETS	4794.16	5095.53	5271.05	5468.34
NET ASSETS	3762.42	4000.23	4194.52	4385.68
Profit Ratios %				
PBIT/Gross Assets	6.89%	8.15%	7.66%	7.23%
NP/Gross Assets	-0.59%	0.49%	0.22%	0.56%
PBIT/Net Assets	8.78%	10.39%	9.63%	9.01%
Net Profit/Net Assets	-0.75%	0.63%	0.28%	0.70%
PBIT/Sales or Income	10.46%	12.11%	12.51%	11.98%
Net Profit/Income or Sales	-0.89%	0.73%	0.36%	0.94%

Table 7 (i)(a). Return on Paid-Up Capital (all cos).

Net Profit/ Share Capital	-5.3	-35.2	-14.9	-12.4	-3.88%	3.27%	1.46%	3.80%
PBIT/Share Capital	30.20%	46.56%	71.62%	64.08%	45.69%	54.00%	50.84%	48.64%

Source: Annual Reports

Notes:

(1) Irish Shipping and Ceimici Teo were put into liquidation in 1984 and results were not available for that year.
(2) Aer Rianta's profit was reduced by estimated depreciation and interest due to Department of Transport as advised by company.
(3) Profit figures include current grant to CIE but exclude ESB's amortisation charge - see T.7(ii).
(4) Income/Sales do not include current grant to CIE.
(5) Aer Rianta's fixed assets are held by the Department of Transport and calculations are based on adjusted values of assets and profits as disclosed in the 1986 and subsequent Annual Reports.

Definitions:

NET ASSETS are defined as (fixed assets plus current assets), less current liabilities
GROSS ASSETS are total assets, both fixed and current
NET PROFITS are profits after depreciation and interest
GROSS PROFITS are profits after depreciation, but before interest and tax

Table 7 (II). PROFITABILITY: AGGREGATE GROSS AND NET PROFITS AND RATES OF RETURN ON GROSS AND NET ASSETS

Original Companies (excluding Telecom Eireann and An Post)

	1980	1981	1982	1983	1984	1985	1986	1987
PBIT	0.367	-8.441	123.357	168.311	240.347	288.3	244.28	238.5
PROFIT (after deprec. & interest (net profit)	125.1	-125.5	-88.6	-67.5	-9	24.48	-20.39	0.7
Income/Sales Revenue	1368.84	1608.7	2024.7	2396.37	2613.36	2791.05	2553.40	2559.24
GROSS ASSETS	2019.5	2443.7	2943	3271.5	3347.26	3593.32	3685.29	3822.78
NET ASSETS	1470.4	1835.3	2180.7	2493.2	2538.30	2802.01	2915.32	3047.08

Profit Ratios %

	1980	1981	1982	1983	1984	1985	1986	1987
PBIT/Gross Assets	0.02%	1.38%	4.19%	5.15%	7.18%	8.02%	6.63%	6.24%
NP/Gross Assets	-6.19%	5.14%	3.01%	-2.06%	-0.27%	0.68%	-0.55%	0.02%
PBIT/Net Assets	0.02%	2.64%	5.66%	6.78%	9.47%	10.29%	8.38%	7.83%
Net Profit/Net Assets	-8.51%	5.34%	-4.06%	-2.72%	-0.35%	0.87%	-0.70%	0.02%
PBIT/Sales or Income	0.03%	2.90%	6.09%	7.02%	9.20%	10.33%	9.57%	9.32%
Net Profit/Income or Sales	-9.14%	-7.52%	-4.38%	-2.82%	-0.34%	0.88%	-0.80%	0.03%

Including Telecom Eireann and An Post

	1984	1985	1986	1987
PBIT	285.24	374.80	360.42	378.19
PROFIT (after deprec. & interest)	-73.17	-15.50	-31.98	13.86
Income/Sales Revenue	3158.05	3431.91	3229.80	3297.95
GROSS ASSETS	4794.16	5095.53	5271.05	5468.34
NET ASSETS	3762.42	4000.23	4194.52	4385.68

Profit Ratios %

	1984	1985	1986	1987
PBIT/Gross Assets	5.95%	7.36%	6.84%	6.92%
NP/Gross Assets	-1.53%	-0.30%	-0.61%	0.25%
PBIT/Net Assets	7.58%	9.37%	8.59%	8.62%
Net Profit/Net Assets	-1.94%	-0.39%	-0.76%	0.32%
PBIT/Sales or Income	9.03%	10.92%	11.16%	11.47%
Net Profit/Income or Sales	-2.32%	-0.45%	-0.99%	0.42%

Table 7 (II)(a). CIE's Current Grant and ESB's Amortisation Charge.

	1980	1981	1982	1983	1984	1985	1986	1987
CIE's Current Grant	-70	-85	-96	-86	-112	-115	116.8	-90.2
ESB's Amortisation Charge	24.7	34.4	43.9	56.8	66.9	74.3	73.2	73.2
Net Change	-45.3	-50.6	-52.1	-29.2	-45.1	-40.7	-43.6	-17

Source: Annual Reports.

Note:

This Table is similar to Table 7(I) except that the profit figures exclude the current grant to CIE, and include ESB's amortisation charge.

Size of Assets and of Profits

The companies make up a substantial proportion of the corporate sector in Ireland. Income or sales of the thirteen original companies in 1984 (excluding Irish Shipping and Ceimici and the two newly established companies, Bord Telecom and An Post) were £2,613 million, equivalent to 17% of GDP (National Income Accounts 1987), and £3,298 million in 1987, which was equivalent to 18.7% of GDP. Table 8(a) is an aggregate income and expenditure account showing the turnover, labour costs, interest paid, profit figures and other statistics (on the same basis as Table 7(i) that is, as per the published accounts). It can be seen that PBIT grew by 520% from £46 million in 1980 to £285 million in 1984 for the original companies and to nearly £400 million in 1987. Net losses declined from £80 million in 1980 to profits of £36 million in 1984 for the original companies and amounted to £31 million in 1987 for all companies. Sales declined between 1985 and 1986 because of large falls in sales of INPC and BGE and little change in many other companies in 1986.

Table 8(b) is an extract from the aggregate balance sheet. It may be seen that gross assets totalled £5.5 billion in 1987 and net assets amounted to £4.4 billion. The Table shows that issued share capital rose from £151 to £812 million, though this includes £379.72 million invested in the two new companies. It also shows that the net worth increased from £330 to £1,131 million in the period, and gives details of borrowing and the book value of assets. The market value of assets is likely to be substantially higher than book values, particularly for utilities such as CIE with large land holdings.

Table 8 (a). INCOME AND EXPENDITURE A/C (£m)

	1980	1981	1982	1983	1984 (1)	1984 (2)	1985	1986	1987
Income/Sales Revenue	1068.841	1668.7	2024.7	2396.37	2613.46	*3158.05*	3431.91	3229.82	3297.95
Labour Costs (3)	424.6	491.1	577.5	608.99	645.3	*947.59*	1001.84	1030.79	1068.50
Interest Paid (4)	122.7	170.68	209.8	224.9	239.9	*351.31*	379.99	382.36	360.72
Rent Paid	5	5.5	3	7.2	7.7	*26.13*	28.51	28.36	29.60
Depreciation and Amortisation (exclu. asset replact. res.)	97.68	124.8	148.4	180.2	198.14	*256.85*	293.74	305.84	335.38
Profit after Depreciation and Interest	-79.8	-74.9	36.5	-38.3	36.1	*-28.07*	25.20	11.62	30.86
Profit Before Interest and Taxation (PBIT)	45.667	99.541	175.457	197.511	265.447	*330.34*	415.50	404.02	395.19
Factor Payments (5)	570.18	720.28	905.[illegible]	991.3	1160.49	*1572*	1828.5	1798.9	1828.32
Average No. Workers	55890	56052	54336	53104	50666	*77272*	74899	71749	68883

(1) Original Companies to 1984 (1)
(2) All Companies (excluding Irish Shipping and Ceimici) from 1984 (2) et seq.
(3) No Labour Costs were obtainable for ISL and Ceimici, and for NPC in 1980 and 1981, though negligible in those years, and Aer Lingus' foreign labour costs are excluded for all year
(4) No data on interest payments for Ceimici in 1980 and 1981, though negligible
(5) No factor payments for ISL and Ceimici in any year, and includes payments to Dublin Gas from 1983 and so these figures do not total.

Table 8 (b) EXTRACTS FROM THE AGGREGATE BALANCE SHEET

Net Additions	218.7	297	352.8	318.3	218.6	*441.7*	413.93	346.03	362.70
Contribution to Capital Stock	314.38	421.8	501.2	498.5	416.74	*698.55*	707.67	651.37	658.00
Gross Assets	2019.5	2443.7	2343	3271.3	3426.6	*4794.16*	5095.53	5271.05	5466.34
Issued Share Cap	151.2	212.7	244.99	308.23	357.2	*723.02*	769.49	794.74	812.49
LT Borrowing	1114.8	1398.9	1671.7	1950.7	2026.2	*2860.10*	2928.59	3007.75	3053.63
of which:									
-Irish Govt	142.8	194	154	146.5	140.6	*387.15*	346.43	294.43	186.20
-banks	883	1035.5	1272.6	1478.2	1375.9	*1742.00*	1924.00	2032.00	2202.00
-Foreign	701.2	905.9	1100.1	1265.8	1296.7	*1651.23*	1583.26	1603.27	1652.01
Government Guarenteed (1)	841.4	1121.2	1383.2	1644.6	1804.1	*2471.25*	2645.18	2733.00	2724.05
Net Assets	1470.4	1835.3	2180.7	2483.2	2538.3	*3762.42*	4000.23	4194.52	4385.68
Net Worth (2)	329.8	369.7	454.3	468.2	548.3	*872.02*	1078.44	1138.50	1131.12
S.T. Borrowing	212.4	238.6	292.4	284.2	272.9	*388.50*	331.45	366.50	398.77

(1) excludes ISL
(2) gross assets less long-term borrowing and current assets.

Source: Annual Reports and Accounts

Individual Companies

The most notable performer was Bord Gais Eireann with very large net profits, earned as a monopoly revenue collector. However, its very large profits of £94 million in 1985 fell to only £10 million in 1987 because of a substantial drop in sales and because of its reluctant nationalisation of Dublin Gas[4]. Aer Lingus (the European company) had a very good performance, and Aer Linte (the transatlantic company) turned around from losses of over £12 million in 1980/81 to break even and small net profits. Irish Sugar's performance improved substantially in the period, having made losses in the first four years, (as high as £22 million in 1981/82), and RTE, making losses in 1980 and 1981, returned reasonably good profits in the later years.

The poor performers were Irish Steel, Irish Shipping, NET and B & I, and for a period Aer Linte. It is expected that the returns for Irish Shipping will be revised downwards by the liquidator in his final report on that company. These poor performers were in industries, steel, shipping, airlines and fertilisers, which were suffering from over capacity for some or all of the period under review. NET, having made very large losses (over £55 million in 1980, largely due to its investment in Marino Point), returned to profitability faster than expected in 1984 and 1985, assisted by subsidised gas inputs and wholesale rationalisation, but returned large losses in recent years. It was partly privatised in a merger with ICI. Ceimici, the small alcohol manufacturer, which joined in an unsuccessful joint venture with an overseas company, was put into liquidation on the 30th of July 1986.

The liquidation of Irish Shipping was not because of poor performance in its basic business of shipping, but because of the gross mismanagement of the company, with its highly speculative ship-chartering contracts. Irish Steel, a major loss-maker, made a small profit in 1985/86, but has returned to losses, though they have been smaller in more recent years than earlier in the decade, and it is likely to be privatised. B & I made losses in every year in the period, rising from £2.8 million in 1980 to a peak of almost £30 million in 1985. The company has been restructured but is suffering from strong competition with the airlines. CIE made profits in 1985 and 1986, (when the subsidy is below the line), but made losses in other years. Bord na Mona, which had made reasonable profits for most years in the period, made losses in 1985/86 and subsequently, largely due to poor weather. It is currently being restructured.

Another state energy company is the INPC which breaks even, taking one year with another, as mandated. It is also a candidate for privatisation.

The ESB, the monopoly producer of electricity, (though in competition in energy with other companies, mainly state-owned enterprises) must break even under section 21 (2) of the the 1927 Electricity Supply Act. While it made losses as high as £27 million in 1984/85, considering the size of its turnover and taking one year with the next, it fulfils its mandate. If the company produced accounts using the same accounting conventions as other companies in the private sector, it would return substantial profits and as was seen, this would considerably alter the aggregate profit and loss account.

An Post initially made small losses but made small profits in the later years of the period under review. Telecom made a substantial loss of £83 million in its first period of operation, but rapidly reduced losses and is profitable and looks likely to be one of the most profitable companies in Ireland in the near future.

The aggregrate net profitability of the non-financial, commercial public enterprises in the period 1980 to 1987 was poor, but improving. The companies were returning reasonable profits, before interest and taxation, but their high level of indebtedness reduced this substantially. This was, however, a period of low or little growth in the economy. Stewart (p.140. 1987) found that these companies "show coincident cyclical trends to public companies in the private sector, for example, the downturn in profits in 1973/74 and a new recession beginning in 1979". The reasons for the poor financial performance of the sector will be examined in the conclusion.

5. RATES OF RETURN ON STATE INVESTMENT

As shown on Table 9, the non-financial commercial state companies made positive aggregate rates of return on the state's investment in them in the period 1980 to 1987 inclusive. The rate of return is defined as interest payments and dividends to the Exchequer as a percentage of government investment, (equity, government loans and capital grants). Bord Gais Eireann returned disproportionately large dividends, but even if it is excluded from the calculations, there was still a positive rate of return, albeit uneven.

Table 9: Rates of Return on State Investment

	1980	1981	1982	1983	1984[1]	1984[2]	1985	1986	1987
All Companies	3.3	3.1	11.3	16.8	14.7	10.2	13.2	6.6	4.2
Exclu. BGE.	3.3	3.1	3.2	3.6	1.2	5.3	6.0	5.2	4.2

1. Original Companies to 1984.

2. Including Telecom and An Post from 1984.

Source: Annual Reports.

Most companies made positive returns on government capital including two which have no equity capital, but several companies made no returns on state investment.

All the companies have always paid interest on loans outstanding from the Exchequer, but the return on equity and grant investment has been low or zero with some exceptions. The main cause is the losses incurred by the companies, and where there are profits, they are generally retained for further investment. According to one company that even with profits, (and it subsequently made substantial profits), it did not intend to pay a dividend in the future, because the net worth of the company is increasing (interview, 8 August, 1986). It argued that most companies in its business do not pay dividends, or where they do, they are small, and the return is in capital gains to the government or other investor by the appreciation of assets. In addition, it argued that it contributes to the economy through employment, foreign exchange earnings and output, etc. The realisation of these capital gains would only be through privatisation.

The following six companies are statutary corporations and have no equity: Bord Gais Eireann, Bord na Mona, CIE, ESB, INPC, RTE and Aer Rianta's equity capital is insignificant at £51,000. However, four of them have loans from the Exchequer on which they pay interest, generally at commercial rates, although some loans are at fixed rates of interest, which were agreed when taken out.

Equity Financing

Exchequer investment of paid-up equity capital in the original companies increased by 187% in the period from £151m to £432.7m (£812m for all companies - see T.8). As was seen above seven of the companies had no equity capital in the period, (apart from a minimal amount in Aer Rianta) and those which did, had their paid-up capital increase substantially faster than their bank borrowings (which grew by 47% in the period to £1,615m). Increased equity capital, of course, reduces the need for borrowing, as would increased profits. While the Exchequer did invest in many of the companies, several of them still complained in their annual reports that they did not have adequate equity, and whether or not the investment was at a rate which was adequate is subject to debate.

Most Irish companies raise the bulk of their finance from bank loans and less from the stock exchange, largely because interest is tax deductible and because of the cost of rights issues. Where public enterprises differ from private companies is that they have extraordinarily high debt to equity ratios (Stewart, 1987).

Equity gearing, the shareholder funds expressed as a ratio of total liabilities for the original companies rose progressively from 0.11 in 1980 to 0.16 in 1984 and to 0.19 in 1987. This was very low compared to most companies listed on the Stock Exchange. In the Business Ratio Report (1986) for over 70 companies, excluding the banks, it rose from around 0.4 to 0.5 between 1980 and 1984, that is, shareholders' funds were equivalent to 40% to 50% of total liabilities, compared to only 16% for the original group state companies in 1984 or 19% in 1987.

Seven of the companies in the study which are statutory corporations are funded entirely from borrowings, (or borrowings plus reserves), and it therefore appears to be implicitly understood that their profits need only be sufficient to cover interest and savings for asset replacement. Therefore dividends (which are paid on equity capital) are not expected from nearly half of the non-financial commercial state enterprises.

The question of whether a company pays a dividend is one for the board of each to decide. Few of them actually do, even when profitable. On the other hand, it is also expected that companies in which the state has not invested any money should pay dividends. Indeed the largest "dividends" have been paid to the state by a company, BGE, without any equity capital and funded entirely on borrowings. This is a question which needs greater public discussion to inform the boards of the companies.

Successive governments appear to be content without dividends in most cases (with the exception of BGE) if the company's financial performance is sufficient for its own investment needs. In the case of several enterprises, the government has made substantial paper capital gains through the growth in their value, and it also appears that the value of others is substantially understated in their balance sheets.

Current Grants

Only two companies, CIE and Aer Linte have received current grants, and only CIE receives them annually. The largest flow from the Exchequer has been the current grant to CIE, which averaged £96.4m per annum over the period under review. Aer Linte, Aer Lingus' transatlantic sister company, received £13m between 1983 and 1986 inclusive in compensation for having to maintain this loss-making route. Its losses far exceeded this and the basis for these payments was not disclosed.

From a strictly financial perspective, many more companies enjoy current subsidies because they do not make a return on capital invested by the Exchequer. There is an imputed annual current subsidy, because the government has to pay interest on the money borrowed for its investment.

6. RELATIONSHIP WITH THE BANKING SYSTEM

The significant borrowings of the non-financial commercial state enterprises are mainly with the commercial banking system and so this area is worthy of examination. Some have loans from the government, EIB and other official agencies. In 1987 total bank borrowings of all companies stood at £2601m and of this, 15% was short term (less than a year) borrowing in that year. It has been seen that while the level of indebtedness declined slightly in the period, the ratio of equity capital to total bank borrowings was very low.

Commercial bank borrowing as a proportion of external finance for Irish companies was 45% in 1981-84, though had been higher, averaging 66% in 1977-80, according to Stewart (1987). Shareholders' funds amounted to 48% in 1980-84, but this was high compared to previous years, having averaged 23% in 1977-80. The bank debt: equity ratio for public enterprises does not appear to be that much out of line when compared to Irish companies in earlier years, but the total indebtedness (including sources other than the commercial banks) is still extremely high.

The reasons for the high debts of public enterprise are first, the companies are in the vicious debt: equity cycle, where low equity means high debts, leading to high interest payments (particularly in recent years with high real rates), which leads to reduced profits, meaning that dividends cannot be paid, which in turn leads to reluctance by the government to invest further. Secondly, as has been seen, some of the companies continue to suffer from their poor investment decisions in the past, and the third reason is the poor commercial performance in day to day management of some companies. Finally government interference reduces the companies' pursuit of profits in some cases, and these will be examined further in the conclusion.

Table 10. Analysis of Borrowing (£m).

	1980	1981	1982	1983(1)	1984	(2)1984	1985	1986	1987
Cash & S/T Deposits	61	93.5	77.3	89.6	69.4	95.72	110.94	152.63	115.41
Overdrafts and S/T Loans	212.4	238.6	292.4	284.2	272.9	388.50	331.45	367.23	398.77
L/T Bank Loans	671.1	796.98	980.25	1194	1103	1742.00	1924.00	2032.00	2202.00
Total Interest Paid to Banks(3)	115.46	161.4	198.77	212.6	228.1	301.00	333.54	344.88	332.72
Interest Rec'd	7.4	12.2	13.7	13.7	12.8	21.05	19.93	24.55	24.59
Foreign Loans (4)	701.2	905.9	1100.1	1265.8	1296.7	1651.23	1583.26	1603.27	1652.01
% of Total	53%	55%	56%	57%	56%	51%	49%	48%	48%
Total of All Loans (LT, ST, Govt. etc)	1327.22	1635.4	1964	2234.9	2299.1	3248.90	3260.00	3374.25	3452.46
Value of Loans O/S Guarenteed by Govt. (5)	841.4	1121.2	1383.2	1644.6	1804.1	2471.25	2645.18	2733.00	2724.05

1. Excludes Celmici and ISL in 1984 et seq.
2. All other companies, including Telecom and Post from this 1984 column.
3. To banks only, excludes interest to government etc, and excludes Celmici.
4. Excludes ISL for all years.
5. Includes ISL only for 1983.

Sources: Annual Reports.

Cash and short term deposits with banks are not significant and rose from £61.1m in 1980 to peak at £153m in 1986. Expressed as a percentage of total borrowings, this only amounted to 3.3% and so would not have had any real effect on reducing borrowings. Interest received varied from £7.4m to £25m in aggregate.

The banking relationship of the original companies was dominated by the ESB which had total borrowings of £1,232m in December 1987. Of this, £554m was borrowed from commercial banks, with the balance being from the Exchequer, EIB, other official sources, and included its own stock. Of the ESB's borrowings, 70% were foreign (including EIB loans). Its interest payments amounted to £39m in 1979/80 and these rose to £131m in 1985/86 and amounted to £114m in 1987. Another major debtor company, Telecom Eireann, had total debts of £967m at the end of its first period of operation, on which it paid interest of £136m, including £46m on government loans of £247m. By March 1988 its loans had risen to £1,187m and interest was £126m, but government loans were reduced to £85m.

Foreign Loans

Foreign loans made up approximately half of all loans. The proportion of foreign loans remained relatively static at between 48-57%, peaking at 57% in 1983 and then declining. The gross amount of foreign borrowing rose from £701.2m in 1980 to £1,652m in 1987, and this was 53% and 48% respectively. The foreign borrowing is from both banks and other official agencies such as the EIB and ECSC. Telecom has a lower proportion of foreign borrowings than the ESB.

Not all of the companies were able to disaggregate domestic and foreign borrowing as they sometimes borrowed abroad in different currencies and also borrowed foreign currencies domestically. (In Table 10 domestic borrowing refers to Irish pounds and foreign to foreign currencies).

Government Guaranteed Loans

The value of loans which the government guarantees for the commercial state companies is substantial and exceeds loans outstanding from the banks. It rose from £841m in 1980 (for the original companies) to over £2,700m in 1986 and 1987 (for all companies). This was greater than the long-term loans outstanding to the banks in 1987 of £2,202m and slightly larger than total loans from the commercial banks. Six companies, Aer Rianta, Arramara, Ceimici, INPC, RTE and An Post did not have any government guarantee on their borrowings. (Aer Rianta and An Post had no borrowings and RTE's were directly from the government). Government loans are not included in those covered by government guarantee.

The reason that the loans guaranteed exceeded the loans outstanding from the commercial banks (domestic and foreign) is that a proportion of loans outstanding to the EIB and other official agencies and on company stock (in the case of the ESB) are included under those guaranteed.

Generally the short-term loans are not guaranteed but a proportion of them are covered by guarantee in the cases of BGE, 1982 to 1984 inclusive, and CSET, 1981 to 1984 inclusive. INPC had no long-term loans but had substantial short-term loans in the first five years, none of which were guaranteed.

The cost of government guarantees to the government was zero until it liquidated Irish Shipping, though it could be argued that the guarantees increase the exposure of government and thus the rate of interest charged to it. The government also liquidated Ceimici, but its loans were all short term, domestic and not covered by guarantee. It appears that the companies' management of their loan portfolios is quite good. The ESB and Bord Telecom have specialist treasury departments to manage their large portfolios. However, as loans guaranteed by government are risk-free lending for the banks, there is a case for lower rates to be negotiated, on behalf of all companies, a point worthy of consideration by both companies and government. On the other hand, without the guarantee, some of these companies would have been placed in liquidation.

Total interest paid by the sector to the banking sector amounted to £333m in 1987 and the sector's total bank borrowings of £2601m (all companies, including Telecom, which has a high level of debt). As 52% of this was in domestic currency, it was equivalent to over 80% of all manufacturing borrowing or 14% of all bank advances in the state (Central Bank Report 1987). The sector is able to pay substantial interest and if adequately funded with equity it is clear that, most companies would be in a position to pay what would amount to substantial aggregate dividends, if their boards chose to do so.

7. FLOWS TO AND FROM THE EXCHEQUER

Flows to and from the Exchequer were quite large in all years and as expected, the net flow was from the Exchequer to the companies, as Table 11 shows. The net flow peaked in 1984 at £149.2m, largely due to an equity injection of £89m to Irish Steel, the largest capital injection into any Irish company in one year (Exchequer Receipts and Issues). The flow from the Exchequer averaged £150m and was at its highest in 1984 at £243.9m. The largest single component of the flow was current grants and it was mainly the subsidy to CIE, which averaged £96.4m per annum in the period. The only other company which received current payments was Aer Linte, for four years.

Capital flows were substantial and were mainly new equity, as can be seen from Table 11, averaging £45.1m per annum. Including the large equity injection in Irish Steel in 1984, that company received a total of £108.7m in equity in the eight year period. The other major recipients of equity capital were NET, with a total of £50m in the period, the troubled B & I which received £66.6m, Aer Lingus £30m, the Sugar Company (CSET) £59m and the moribund Irish Shipping, (liquidated in November 1984), which received a total of £20.2m in the five year period. Table 11 excludes the two new companies, Telecom Eireann and An Post, because their inclusion would distort trends (they received a total of £379.72m equity capital and Telecom received substantial Exchequer loans and guarantees on its establishment).

New loans did not amount to much, and grants were not large, except in 1982 when they were £35m, of which £25m went to Irish Steel, and £10m to INPC for the purchase and refurbishment of Whitegate oil refinery.

Therefore, it may be seen that as well as CIE on the current side, the main beneficaries of state investment in the period were Irish Steel, the largest recipient, NET, CSET, Irish Shipping and B & I. New equity investment in the sector fell substantially after 1984.

T. 11 FLOWS TO AND FROM EXCHEQUER (£M), ORIGINAL COMPANIES.(1)

	1980	1981	1982	1983	1984	1985	1986	1987
FROM EXCHEQUER								
Capital.								
New Govt. Equity in Year	6.09	67.29	38.5	50.11	129.81	24.30	25.00	20.00
Net New Govt. Loans in Year	9.66	4.47	3.2	-0.78	-5.8	3.33	-1.40	-54.86
Capital Grants in Year (2)	2.86	1.15	35	6	3.92	2.00	2.30	1.90
Loan Written Off by Govt in Yr (3)		0	0	0	0	0.00	0.00	44.50
(Net New Loans gnteed by govt in Yr	25.968	93.65	21.42	70.03	31.17	47.36	-47.83	-48.92
(Net New Loans from Other (public agencies eg. EIB, ESSC.	58	37.09	120.69	74.104	84.4	79.59	37.35	-13.85
Current								
Current Grants/Subsidies in Yr.	70	85	96	91	116	116.64	117.24	90.32
Current and Capital Flows from Govt.	88.61	157.91	172.7	146.22	243.93	146.27	143.14	101.86
Grand Total	172.578	288.65	314.81	290.35	359.5	114.04	132.66	39.09
TO EXCHEQUER								
Capital								
Loan Repayts (see net figure above)								
Spec. Payts to "Exchequer" (Dublin Gas)		0	0	0	17	3.75	27.31	0.00
Current								
Interest Payts to Govt.	8.05	8.81	10.41	11.97	12.19	14.77	16.60	14.89
Dividends to Govt.	2	4.1	36.5	67.96	64.6	99.69	32.58	14.05
Corporation Tax (net)	1.83	1.3	16.5	3.3	0.8	2.10	3.01	5.18
(BGE grant to Dublin Gas	0	0	0	8.42	7.31	11.13	10.68	3.54
Total to Government	11.88	14.21	63.41	83.23	94.59	120.30	79.50	34.11
Grand Total	11.88	14.21	63.41	91.65	101.9	131.43	90.18	37.65
Net Flow From Exchequer	76.73	143.7	109.29	68.1	149.34	25.97	83.64	67.75

1. Excludes equity of £379.72m in Telecom and Post in 1987.
2. In 1983 includes £10m grant to INPC for purchase of Whitegate and £15m to Irish Steel.
3. Loan written off to CIE in 1987, of which £30m in lieu of interest payments on DART (Dail Debates 15 Dec. 1987)

Sources: Annual Reports, (annualised on calendar year basis) and Exchequer Receipts and Issues.

The average net flow from the Exchequer was £88.1m per annum. The net flow was erratic, rising in 1981, falling in the subsequent two years, peaking in 1984 with the large equity injection into Irish Steel, then falling and rising again.

The net budgetary benefit or burden (depending on whether it is a positive or negative flow to the Exchequer) of the non-financial commercial public enterprise sector averaged 2.25% of GDP in the "world" during the mid 1970s, according to an IMF study, which included mainly developing countries (Short, 1983). Of industrial countries analysed, it was lower, amounting to an average budgetary burden of 1.5% of GDP. In the period under review for Ireland, it was negative, varying between a low of 0.38% of GDP and a high of 1.4% (in 1981), but was below 1% of GDP for six years in the period reviewed.

Net new loans guaranteed by the government varied, but fell in later years (loans guaranteed to Telecom rose from £655m on establishment to £957m at the end of 1987). New loans from other public agencies rose initially and fell off with net repayments.

On the other side of the account, the largest flow from the companies to the Exchequer were dividends which peaked in 1985 at £99.7m, up from a low of £2m in 1980. Most of the dividends were paid by BGE. These rose from zero in the first two years to £33m in 1982, and £63m, £54m, £80m, £15.5 and zero in 1983, 1984, 1985, 1986, and 1987 respectively. The companies paid interest to the Exchequer of between £8m and £17m each year. Net corporation tax was low and peaked in 1982 at £16.5m, (mainly BGE) and was as low as £0.8m in 1984.

On the capital side, the companies repaid a few million in loans initially, and the amount increased substantially later. BGE made capital grants and loans to a private company, Dublin Gas, in the period[5]. The flow from the companies to the Exchequer rose from £15.2m in 1980 to peak at £120.3m in 1985, and averaged £62.7m per annum. The average net flow, as was seen above, was in the other direction averaging £88.1m per annum.

If the current payment to CIE was deducted, the flow from the Exchequer to the companies would be much smaller, averaging only £18.2m a year for the first five years, but over the full eight years, the flow would actually be reversed, with a net flow from the companies of £8.34m to the Exchequer.

(This subsidy, which amounted 33% of CIE's income in 1980, fell to 27% in 1987).

It was pointed out in the introduction that the period examined was one of poor performance for the Irish economy, and this study has shown that the aggregate financial performance of the commercial state enterprises was also poor, with some exceptions, though improving. The flow of equity capital to the sector was substantially reduced after 1984. The annual average flow of equity capital between 1980 and 1984 was £58.4m, reducing to £23.1m in the subsequent three years.

8. CONCLUSION

The non-financial commercial public enterprises are an important part of the Irish economy, having contributed over 10% to Ireland's GNP, over £5.5 billion in capital stock, over 18% of gross fixed capital formation and employing over 68,000 people, or over 6% of those at work in 1987. This share in GNP and gross fixed capital formation is in the middle range of public enterprises in industrialised economies by international standards. They are a heterogeneous group of companies in manufacturing, air, sea and internal transport, communications, broadcasting; they include monopolies and companies in very competitive sectors, and are in growing and in declining sectors.

Employment in Irish commercial public enterprise fell dramatically by 18% from 82,832 to 68,010 between 1980 and 1987, compared to a national decline in those at work of 5.9% in the period. The proposals for the expansion of state enterprises in the Programme for National Recovery (1987), will do little to reverse this large decline. Two companies expanded their workforces, both by the nationalisation of defunct private assets. One company shed 58% of its workforce, seven shed more than a fifth of their workforces, and all except two shed more than one tenth of their employees (excluding the two new companies, Telecom and Post).

While ownership has little to do with performance, as was demonstrated by the improved performance of the still-nationalised sector over the rest of industry in terms of productivity in the UK between 1978 and 1985 (Molyneux and Thompson, 1987), public enterprises can and do suffer from political interference, resulting in contradictory and ill-defined objectives, which detract from the pursuit of profit. As the UK's nationalised industries' targets changed away from social and regional targets to financial ones, they shed labour, increased productivity and profitability. Similarly many Irish public enterprises have shed labour and, assisted by the resumption of economic growth, have improved profitability.

Although the financial performance of the Irish public enterprise sector was improving in the eight year period under review, nonetheless, it was poor in aggregate. There are two broad reasons for the low level of net profits. One is poor management in some companies, particularly regarding investment decisions, and secondly, public enterprises cannot be judged strictly by financial criteria.

While many companies argue that they are underfunded - and this would appear to be the case in several instances - the sector's poor financial performance in the period was to a large extent due to poor investment decisions by the management of several companies which resulted in high interest payments, and poor returns. These poor investment decisions were NET's much criticised investment in Marino Point, Irish Steel's decision to build a new mill, and the most spectacular of all, Irish Shipping's speculative charters, which led to its liquidation. On a different level was the ESB's over-investment in generating capacity, which led to surplus capacity of 66.5% above peak demand in 1985/86 (where a reserve of 30% was required) (Sweeney Ch. 2 1988b). However this was due to poor forecasting which is difficult for electrical utilities, particularly one with an isolated grid, and it also occurred in other countries too (Jakobsen p.140 and p.237 and Unipede).

The responsibility for poor investments is largely that of the management of the companies (though in two cases, Irish Shipping and NET, the relevant government Departments, as representatives of the taxpayer, were less than competent). It is argued that a major reason for such examples of poor judgement may be because of the relatively poor pay of top managers in the public sector, though highly paid management in the private sector has not always meant that companies avoided major losses. Gleeson (1987) recommended that the chief executives of the larger commercial public enterprises be remunerated in a performance-related manner. Nonetheless the management of most Irish public enterprises generally appears to be comparable to that of the private sector, particularly as its objectives are more diverse.

From the pattern of equity investment, it appears that it is unplanned, reluctantly and belatedly given by governments. The few major investments since the early 1980s indicate that most public enterprises are now risk-adverse to new enterprise, not because of new investment guidelines, but because of the poor performance of some companies in the past.

The lack of a single objective, such as the pursuit of profit, may lead to opaqueness in the appraisal of performance, but this is reduced by the higher level of scrutiny to which these companies are subject. This includes the publication of their accounts, examination of their operations by the Joint Oireachtas Committee on State-Sponsored Bodies, periodic Ministerial investigations and Dail debates.

Five companies suffered from poor management at one time or another. Two of them, Irish Shipping and Ceimici, have been closed down, another, B & I, had its management changed by the shareholder, while NET improved its position and the last, Irish Steel, is still in trouble.

There have been few recent studies of the cost of the social obligations imposed on public enterprises by government. It is clear that such obligations impose costs on the companies, for example, the Sugar Company stated in its annual reports that its financial position was weakened with the refusal by government to allow it to consolidate by closing its fourth plant at Tuam in 1980. It was directed to keep it open for "another year" in 1981. In the event, it was not allowed to close it until the end of 1986, and the company quantified the additional cost at £13.2 million in current prices or equivalent to nearly half the net losses incurred in the seven years.

The company later decided to further consolidate by closing its Thurles plant and in a General Election, Mr. Michael O'Kennedy[6], later to become Minister for Agriculture, threatened to change the composition of its board by putting on nominees who would vote against the proposed closure of a plant in his constituency, if the government was changed. This was a clear case of attempted political interference in the commercial affairs of a public enterprise. If the considered decision of the board was that the company's future was best secured by a concentration in two rather than three plants, then it should have been allowed to implement its decision, after due consideration of the submissions of interested parties, including trade unions and local politicians.

Another example is the 1984 decision by government to renege on its agreement with the newly corporatised Telecom Eireann by demanding repayment of £180m in three years instead of fifteen as originally agreed. The chief executive, Mr. Tom Byrnes, resigned over this issue which "was the one which Byrnes could not tolerate," and he "said that it was unrealistic to seek the monies." He had been supported by the company's board. (Business and Finance, 1989).

In the 1988 Budget, the Minister of Finance, Mr. McSharry, persuaded the ESB to repay £31.4m debt outstanding instead of a planned £2m in interest and capital, and he also imposed a 5% VAT charge on electricity, stating that there "will be no increase in consumer prices" (1988 Budget Statement). In the 1990 Budget, The Minister for Finance, Mr. Reynolds, increased the rate of VAT to 10% saying that "I am arranging that the additional costs be absorbed by the ESB." (They will be £18m in a full year). He also imposed 10%VAT on telecoms stating that "I am confident that this can be implemented without increased cost to telecom users" (Cost of £11m in a full year) (Budget Speech 1990). He was supported by the Minister for Energy, Mr. Molloy, on the issue of the ESB increase, who, when questioned on whether the board would obey the "suggestion" said "the government has made its intentions clear. The ESB is a semi-state organisation and the new policy has been defined" (Irish Times 1990).

Another example which again involved the ESB, was where the Board claimed to Jakobsen (1984) that the government imposed ten additional costs on its operations, and the present author (Sweeney, ch.3. 1988b) found that this was correct in nine cases, which included cross-subsidisation with other public enterprises, for example, the use of peat for electricity generation, the purchase of natural gas, below and later above the oil-related price, rural electrification and a subsidy to offshore islands.

On the other hand, the collapse of Irish Shipping may have been prevented had government monitoring been adequate. While some companies' executives may complain of too much government supervision, this was a case where adequate attention by the Department may have prevented the collapse of the company[7]. There are clearly financial costs imposed on commercial public enterprises which are not adequately remunerated or acknowledged in the accounts of the companies. At present, CIE's railway company and its urban transport subsidiary receive the only current subsidy for social obligations, and these represented the largest flows of funds from the Exchequer to the sector in the period.

It has been argued that the area where a number of public enterprises made the most serious commercial mistakes was in investment appraisal. The National Planning Board said that there was a natural tendency for expected future revenues to be raised and future cost to be lowered by what it termed "investment optimism" on the part of the enterprises wishing to make the investment. The Department of Finance issued guidelines (1983) which the Planning Board felt would "ensure rigorous appraisals" of future investment. The Planning Board had advocated a rate of return of the cost of money plus 5%, stating that it was "preferable to err on the high rather than the low" (National Planning Board, 1984, p.116). No basis for the choice of the additional 5% is given, and it appears to be arbitrary and whether it is too high, particularly in times of low inflation and high real interest rates, is worthy of debate.

The Planning Board (1984, p.122) also suggested that an assessment should be made of each public enterprise's capital liabilities which it could be expected to service if it were operating at maximum efficiency. It recommended that the loss-making sections be closed down if it is clear that they could not be turned around. Where the assessment showed that the company could only service part of its debts, then the remaining part should be written off in its balance sheet and fall on the Exchequer. This would not mean any change in the Public Sector Borrowing Requirement, but it would make the debt service guaranteed by the Exchequer explicit, and the "public enterprise would be left with an attainable objective" it argued.

The National Economic and Social Council report "Enterprise in the Public Sector" (1980) recommended that new commercial state enterprises "be given a sound financial basis from the start" and that social objectives be quantified and met by the Exchequer. Neither of these recommendations have been followed. It also recommended that such companies be given freedom to manage their own financial affairs as a private firm does, without government guarantees.

The White Paper on Industrial Policy (1984) was critical of the "costly investment errors" and while acknowledging the unique difficulties of public enterprises, it said that social objectives should not act as a "justification for internal inefficiency." It outlined six points which were aimed at improving the performance of these companies.

The reasons for the lack of profitability and high indebtedness of the public enterprise sector are not unique to Ireland. A World Bank study by

Shirley (p.3 1983) found that "the problems of trying to assure state-owned enterprise efficiency are strikingly similar (in all countries). Conflicting objectives, insufficient autonomy, inadequate measures for judging performance, lack of incentives linked to performance, and bureaucratic rather than commercial management styles - these problems arise in all sectors and have led to attempted reforms in socialist and market economies alike."

Raymond Vernon (1981) said that state enterprises have a "confusion of goals, that may be unreconciled and unreconcilable" but he does not see this as the problem as long as "policy makers and scholars keep the differences in mind," but rather that state enterprises are usually created with "many different purposes in mind, with some parts of the body politic harbouring one main purpose, while other parts harbour another." He says that "where conflicting and mutually inconsistent goals seem to exist, politicians may find it undesirable - even dangerous - to clarify the ambiguity." Vernon also argued (1988) that often the glaring cases of public enterprise inefficiency reveal "more about the basis character of the governments involved than about the efficiency potential of state enterprises."

Curwen (p. 55 1986) echoed Vernon, stating that UK governments were inclined to hold down nationalised industries' prices as part of anti-inflation policy, leading to lower profitability and hence the need for subsidies. Thus "it is hardly surprising that the concept of public interest is very troublesome and that governments generally prefer to keep it as ambiguous as possible so that any choices are compatible with it." Pryke's study (1981, p.262), also of the UK, said that "policies which governments have pursued towards the nationalised sector since 1970 seem almost to have been devised to depress their performance. They have created confusion about the nationalised industries' objectives." He also believes that government policies have "not only lowered the morale of the management, but they have reduced their sense of responsibility."

In the UK there was a dramatic change in policy towards the nationalised industries, initiated by the Labour government in 1978 and accelerated prior to the privatisations, when the state-owned companies were encouraged in every way to maximise profits, at the expense of jobs or other social objectives. All public enterprises in the UK had become profitable prior to privatisation, for example, the "principal changes at British Airways had been completed well before the sale of shares occurred" according to Kay

(1987). Indeed, those remaining in the nationalised sector outperformed the rest of the UK economy in productivity growth, according to Molyneux and Thompson (1987) and even endemic loss-makers such as British Steel have been returned to profitability. It made a loss of £1.7 billion in 1979 and made a profit of £738m in 1988. Its productivity was up 60% and its workforce was cut by 70% in the ten years to 1988 (Financial Times, 1988). British Coal, another large loss-maker, returned profits of over £270m in 1988/89, by closing or merging 78 high cost pits, cutting its workforce in half, increasing productivity by 70% in the four years to 1988, as well as receiving £10 billion subsidies since Mrs. Thatcher was elected in 1979 (Economist, 1988).

It appears that there was a similar development in Ireland, with the financial performance of most public enterprises improving in the late 1980s, because of the improvement in the economy, labour shedding, little new investment and a shift in emphasis from social to financial objectives. In short, there has been a new emphasis on financial performance, judged by the criterion of profit, with social objectives, particularly employment, being relegated. It is clear that some of the public enterprises could not continue making losses of the size which they made in the early 1980s, and changes were needed. The new emphasis on financial performance is understandable from the companies' management point of view, but it should be informed by a broad policy statement from government.

Governments are confused in their requirements of the commercial public enterprise sector. While they have emphasised the importance of financial performance on the one hand, they also have directed public enterprises to pursue social and regional objectives, for example, BGE was ordered to take over the defunct Dublin Gas, a move no commercial company would even contemplate. Governments have also stressed the developmental role of the sector, particularly in job creation (Programme for National Recovery 1987).

If the government follows the recommendations of the Planning Board and NESC in adequately funding public enterprise (and there will be disagreement on the definition of adequate), attempts to quantify the social, and regional obligations imposed on companies, and mechanisms are introduced to curb political interference, then the financial performance of these companies should improve. It is unlikely that investment mistakes will be made again with the new guidelines on investment. Whether higher rewards for top management will improve corporate performance remains to be seen. It is desirable that net profits are made by most public enterprises, but this is not the sole criterion of their performance.

The future of Irish public enterprises is uncertain. There are those who believe that viable companies should be sold off to private interests, holding that the state has no business in business, and that the financial performance of some companies would be improved by a change in ownership. In the middle ground is the dominant view in Ireland, the pragmatists, who respond to each crisis when it arises, as best they can, without strategic thinking. Then there are those who believe in direct intervention in the economy, holding that the role of public enterprise should be planned and that it should play a major role in the development of the economy.

Privatisation has already taken place in Ireland, with the merger of 49% of NET's operating company with ICI, the sale of the Joint Hospital Services Board and of Irish Ferries, without much opposition, because there was little alternative. There are proposals to privatise, in full or part, INPC, Irish Steel and perhaps Irish Life. The major problem of public enterprises today is lack of equity funding from a reluctant shareholder, and consideration of alternative ways of raising finance should include methods such as those used by Telecom Eireann. It's subsidiary, Irish Telecommunications Investments, raises substantial amounts of capital from the private sector, but control remains fully with the parent company, and it allows private capital to invest in this rapidly expanding sector.

In the UK privatisation was undertaken for four reasons - to encourage competition, spread wider share ownership, raise revenue and curb the power of the public sector unions. The transfer of public monopolies to the private sector has not improved competition according to Kay (1987) and Molyneux and Thompson (1987)). Wider share ownership occurred but, in most cases, the shares were sold well below market prices, which ensured successful sell-off, but at the taxpayers' expense, and shareholders did not hold on to them for long. Over stg£20 billion was raised in revenue in the eight years to 1987, but the question is how much more could have been raised if the assets were sold at market prices? There were substantial debt write-offs, such as stg£780m in the case of Short Bros, Belfast, and the water privatisation took place with a "Green Dowery" of stg£1.5bn and debts of stg£4,900 which were written off. When given to public enterprises, such sums were known as "subsidies." The debt write off alone was almost the amount raised which was stg£5.24bn. This was lower than the value of assets which were at stg£7.7bn on the limited historic cost accounting basis. It has been argued by Bishop and Kay (1987) that Mrs. Thatcher would not have been able to curb the unions (specifically the miners) without the enterprises being publicly owned, because large amounts of funds could not have been given to private companies to subsidise them in order to win strikes. Privatisation is a very political area.

Intervention in industrial policy is supported by virtually all, but at present it is passive, expensive and relatively ineffective. The Telesis report (NESC, 1982) advocated that Ireland should develop strong, internationally competitive, indigenous industry, and this view was echoed by the government's Review of Industrial Policy (Dept. Industry and Commerce, 1986) which quantified the cost of aid to industry at around £400m per annum. In addition, tax expenditures amounted to over £1,300 in 1987 (Dail Report, 1988). While a proportion of the latter would not be tax foregone because of transfer pricing, the degree of subsidy to industry illustrates the high level of passive state intervention which has developed in piecemeal and arbitrary ways.

The nominal value of direct capital subsidies to industry has halved in the 1980s, largely because of the fall off in the level of demand. There is therefore, a strong case for planned, direct investment in the economy through selected and restructured public enterprises, where feasible. The low profitability, poor management of some companies, some bad investments, and unclear goals, at a time of low growth in the economy should not become the dominant view of this important sector of the economy and thus reduce the range of options for economic development. Many of these companies are now performing well and could be vehicles for industrial development and employment now that foreign direct investment is increasingly difficult to attract, and is insufficient to meet our needs.

When the reasons for the poor financial performance of Irish public enterprises in the 1980s are clearly analysed, then it is possible to take the necessary steps to improve their performance, financial or otherwise. Improvements have already been made, particularly regarding investment appraisal procedures. Management has been changed in some companies, the unprecedented step of closing down two unviable companies has been taken, and there has been some financial restructuring. More restructuring is required, assisted by clear statements of goals, financial, regional and social. Payment of current subsidies for non-commercial objectives must be considered, and the companies should be positively encouraged to develop, once the new framework has been completed.

FOOTNOTES

1. Seventeen companies, (listed in Appendix 1) are examined. All figures are from the annual reports of the companies, and except where stated, figures have been computed on an annualised basis. As the accounts ignore cross-subsidisation and social benefits where these occur, the study is therefore a financial rather than an economic analysis.

2. The eight industrial companies in 1980 (four of which are manufacturing) were Bord na Mona, ESB, CSET, NET, Irish Steel, Ceimici, Arramara, and INPC (which did not commence refining until 1982). Two other companies, CIE and Aer Lingus have substantial manufacturing subsidiaries (though the latter did not commence until 1981) and the former is included.

3. The Programme for National Recovery, October 1987, promised "20,000 extra new jobs, on average a year over the next ten years" and it placed special emphasis on the commercial public enterprises, with a detailed appendix on their anticipated role.

4. Mr. Pat Dineen, Chief Executive of BGE said that "BGE, purely form a business point of view, was most reluctant to take over the company, we took it over because the Government wanted us to." (Business and Finance, 1987).

5. It was decided to include the capital grant from BGE to Dublin Gas, a private company at the time (1983 and 1984), in the flow from the sector to the Exchequer, because it would otherwise have been paid as a quasi-dividend to the Exchequer. There was difficulty in determining whether the current grants paid by BGE to Dublin Gas should be a flow from the sector to the Exchequer or to "other official agencies". As it was a flow from the sector to a private company, which will not be repaid, it was not included in the flow to the Exchequer. This has the effect of reducing the performance of the public enterprises.

6. Letter dated 9th February 1987 on Mr. O'Kennedy's notepaper, which stated "you change the government and we will change the board ...with at least one other director from the Thurles area." It accused the Managing Director and board of "closing the doors of their luxury offices" to "public representatives and the workers of

North Tipperary." As the Chairman threatened to resign the board was not substantially changed.

7. While the board of Irish Shipping and its annual reports did not state explicitly the extent of the expensive charter agreements, there was enough information in the annual reports to warrant requests for more information by the governing Department. For more detail on this see the Report of the Joint Oireachtas Committee on Irish Shipping (1985) and Sweeney (Ch. 5, 1988b) for details of this debacle.

Appendix

THE COMMERCIAL STATE ENTERPRISES

The "Original" Companies

Aer Lingus
Aer Rianta
Arramara
Bord Gais Eireann
Bord na Mona
B & I
Ceimici Teo. (In Liquidation, 1986)**
CIE
Irish Sugar
ESB
Irish National Petroleum Corporation
Irish Shipping (In Liquidation, 1984)*
Irish Steel
NET
RTE

*Thus Ceimici and Irish Shipping do not feature for these and subsequent years.

The following two commercial public enterprises were established in 1984:

An Post
Bord Telecom

The financial commercial public enterprises were excluded because of difficulties in the definition of profits and other problems with comparative statistics. These companies are:

Agricultural Credit Corporation
Foir Teo.
Industrial Credit Corporation

Appendix (Contd.)

Irish Life
Voluntary Health Insurance Co.

A major new public enterprise was established in 1989 with the corporatisation of the forestry service which is now called:

Coillte.

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DISCUSSION

J. Stewart: First and most important I want to congratulate Mr. Sweeney on an excellent paper. Sadly the use of company accounting information and the Annual Report and Accounts of companies is a much neglected source of information by economists and other researchers in Ireland. This is not the case in other countries. Paul Sweeney's paper focuses on one particular sector which has been particularly neglected, and I am sure this paper will be widely referred to by those interested in industrial economics, economic development and financial economics. This paper will also be of great interest to the Stock broking and financial community because privatisation - the selling of State assets -, whatever one's views on the merits or demerits of such a policy, is on the agenda, or part of what some might call "an action programme".

I want to say something in a moment about privatisation, because it is implicit in this paper that State owned companies may be sold, and not necessarily to the private sector as in the case of the recent sale of ICI to AGF which is 75% owned by the French State.

The first comment I want to make is that in discussing debt levels it is common to relate interest payments to GNP, a flow to a flow, and it is also common to relate the stock of debt to GNP, a stock to a flow. Various statements may then be made that the level of borrowing is too high, stable, declining etc. In my opinion what would make more sense would be to relate the stock of debt to the aggregate stock of assets. Paul does this in his paper for Semi-State companies where we can see that gross assets of £5.5 billion are financed by borrowing of approximately £3.4 billion. Whether this ratio is too high or too low may depend on the ability to service the debt, or more specifically the nature of debt contracts. Are the underlying assets marketable in the event of default, what are the default penalties, but most fundamentally what is the market value of these assets? For example for 1981 Gross Assets are shown at £2,443.7 million. For three companies ESB, BGE and Aer Lingus/Aer Linte assets defined as fixed plus net current assets using historic cost conventions amounted to £1,289 million and using SSAP 16 inflation adjustments the same assets amounted to £1,998 million an increase of £709 million.

Some of the companies examined could be thought of as property type companies (Bord Na Mona, CIE and, though not included, Coillte), and it is usual for such companies in the private sector to have low trading income and high borrowings, the returns to shareholders coming in the form of capital gains on holdings of land and buildings. Viewing CIE as a property company means that the returns to shareholders would consist of capital gains from selling land, a policy pursued extensively by BR in the UK. There is no doubt that for example, selling the Bray/Harcourt railway line for building purposes would improve the financial performance of CIE but reopening and operating this line would result in CIE's financial performance disimproving. It is also likely to be the case that using this asset as a railway line would lead to large capital gains by existing house and other property owners along the line far in excess of potential losses to CIE (and there may be other benefits). The problem is that unless CIE can share in these capital gains there is a financial disincentive to undertaking investment that overall would result in considerable capital appreciation and would, of course, have other benefits. Mr. Sweeney's paper has done a useful service in drawing our attention to the value of assets in the State sector, and hence the importance of careful thought as to how these assets will be managed in future years.

Thirdly a feature of the financing of Semi-State companies is a small (but growing) reliance on off balance sheet financing (shipping/Aer Lingus is an exception), in other words leasing. As far as I am aware Semi-States have also not relied on tax based lending as sources of finance (S.84 Loans). This is of particular interest given that large capital intensive enterprises such as ESB could not use their depreciation allowances. This raises issues as to the comparability of the size of flows of funds between various sectors and the State which Mr. Sweeney refers to. The non-use of depreciation allowances either directly or via leasing and tax based financing has also penalised the performance of the Semi-State sector in comparison with other sectors.

Fourthly Mr. Sweeney demonstrates the elastic nature of profits. While one could certainly agree that it would be consistent with the Hicks/Simons definition of income and what in the US is referred to as GAAP to include current grants, I would argue that capital grants should be excluded from income. This would be a fairly minor adjustment in the case of the Semi-State sector, but is more important for companies in the private sector. There are also likely to be difficulties with the accounting treatment of exchange rate gains/losses, for example for Aer Lingus/Aer Linte for YE March 1985 treating foreign exchange losses as an exceptional item (before declaring pre-tax profits) would have reduced profits from £14.3 million to £7.8 million. Indeed one Semi-State company (not included in this study) ICC has since 1981 stated in its Annual Report and Accounts that all foreign exchange gains/losses on certain liabilities will be borne by the Department of Finance. The same company for the year ending October 1989 also shows as an exceptional gain the surplus from the sale of property amounting to £5.4 million of declared pre-tax profits of £10.7 million. A more usual accounting treatment would be to show this as an extraordinary item and hence added on after the declaration of pre-tax profits.

Finally Mr. Sweeney notes that several of the companies complained "that they did not have adequate equity". There is a well known proposition in financial economics associated with Modigliani and Miller that companies should be indifferent to the use of debt or equity. The complaint by Semi-State bodies could be explained by a number of reasons:

1. We want equity finance because we have no intention of paying dividends and hence equity finance is free capital or
2. We wish to introduce outside shareowners in whole or in part, that is we wish to change the nature of the contract between the management of the firm and the current owners. Contractual relationships are of particular significance if the firm is viewed as Oliver Williamson and others do as a 'nexus of contracts'. This desire to change contractual relationships may be explained by:-
   - the desire of existing management to share in future profitability, that is future rewards would be a function of future performance. This is difficult to achieve without a firm having a stock market quotation. Hence one notes in the private sector top management are often rewarded by stock options, which provide considerable wealth depending on future performance. It is also likely to be true that salaries and tax free perks in the private sector in large organisations would be considerably in excess of those in the public sector. It is also true that tax reliefs designed to encourage wider share ownership also operate effectively with a company with a Stock Market quotation, but there are good grounds for considering such schemes as a form of tax free income rather than tieing the wealth of an employee to the underlying performance of the company;
   - a Stock Market quotation also facilitates the take over of other companies via a share exchange without the need to raise outside funding. Whether a policy of takeover is a desirable strategy is another question;

- we can also note that companies/assets may also be privatised without a Stock Market quotation where the assets are sold to a larger group as in the case in NET and perhaps in the case of Irish Steel, or where the company is put into liquidation and the assets sold.

Mr. Sweeney has provided a useful summary of the privatisation debate in the UK. Companies were profitable (efficient before privatisation). Privatisation may not have had much effect on wider share ownership. Net revenues from privatising assets have been negative in some cases after contributing to pension funds, writing off debt, etc. So the question arises why privatise, given the costs? One important reason may be to focus objectives, for example profits, and then to increase rewards and incentives to management to achieve these objectives. Whether privatisation achieves this is in the most efficient manner is debatable. It is also unlikely that profits are an adequate indicator of efficiency in the case of monopolies. Nevertheless managerial incentives and abilities are important. To quote Mr. Sweeney "the sector's poor financial performance in the period was to a large extent due to poor investment decisions by the management of several companies which resulted in high interest payments, and poor returns".

J. Roche: I very much welcome the paper prepared by Mr. Sweeney on a very important area of Irish economic life and I would like to congratulate him on a wide-ranging and valuable contribution.

I would like to make two points regarding the contribution of commercial public enterprise to the economy. First it would be desirable to make a distinction between enterprises which are trading in a competitive area and those which are in a monopoly or quasi-monopoly situation. For the former, it can be assumed that, broadly speaking, the prices at which they sell their products and services are determined by the market. Hence their profitability performance reflects the outcome of competitive trading. In the case of the monopoly or quasi-monopoly enterprises, however, prices are not determined competitively. Consequently in assessing their financial performance it is necessary to have regard to the prices they charge. The profit test is not adequate. The second point is related in an important way to the first one. For enterprises such as Telecom Eireann their indirect contribution to the economy may be as important, or perhaps more important than their direct contribution. The quality and price of Telecom Eireann's services affects every business in the country and two-thirds of households now have telephone service. The importance of telecommunications costs to businesses is growing world-wide. Telecom is committed to reducing prices progressively and has reduced them by 20 per cent in real terms since it commenced business. The contribution that telecommunications services can make to improving national competitiveness, through reducing the disadvantages of peripherality in the context of 1992 and in attracting highly mobile services industries, is substantial. This has important implications for the role that government policy sees for telecommunications in future national development. There is the danger that the contribution to that development could be undermined by inappropriate government policies.

Mr. Sweeney discusses two perennial issues that are associated with public enterprise viz. the problem of conflict/confusion over the State's objectives for the enterprises, and the political interference which adds to the problem, and the issue of equity financing. As I implied already, there is need for clarity in regard to the strategic aims of public policy. However, I believe that the remedy for the confusion over objectives lies largely with the enterprises themselves. It is essential that board and management clarify their own business objectives and discipline themselves to achieve them. It is too easy to blame government policy for the failures of management itself. This was a tendency in the past. There is now strong evidence across the range of public enterprises that current managements are responding more effectively in this manner. In regard to the question of equity financing, Mr. Sweeney and Dr. Stewart in their remarks, drew attention to the importance of the return on assets (ROI) as measured by profit before interest and tax as a test of financial performance. The important point is that this return is unaffected by the manner in which the assets are financed. Personally, I share the view already expressed that equity finance tends to be seen as "free" capital and a soft option. Nonetheless the need for public enterprises to become fully self-financing, where possible, is very important and to enable them to do so it is essential that they should be allowed retain a reasonable amount of profits, which is another form of equity.

I would now like to turn to a few matters of detail. Regarding the flow of funds between the Exchequer and public enterprises, I appreciate that Mr. Sweeney has omitted Telecom Eireann from Table 11. However, it may not be generally known that Telecom Eireann has repaid all the loan finance (£300 million plus interest) that it received from the Government on its establishment. All Telecom debt is now owed to external financiers and fully remunerated by Telecom. As it is now fully self-financing, the role mentioned by Mr. Sweeney for Irish Telecommunications Investments Ltd. has changed. The financial subsidiary is now concerned mainly with the management of the company's large loan portfolio and with re-financing that portfolio.

Finally, I would like to take up a couple of points that were made by Professor Cahill. While we accept there is a case for increasing the depreciation provisions in Telecom Eireann, in line with changing technology, it is not correct to suggest that, if an "appropriate" depreciation policy were followed Telecom Eireann's recent profits would be wiped out. Even if we were speaking of the profit in 1987/88, which was relatively modest, this would not be so, and it certainly would not be so having regard to the profit of over £50 million made in 1988/89. In regard to his remarks on the poor quality of disclosure in the accounts of Public Enterprises, might I be permitted to point out, without undue boasting, that in two of the five years since it commenced operations, Telecom Eireann has won the top accounting award for the quality of its accounts - a record equalled only by the Smurfit Corporation!