

Department of Finance Note on Report of Review Group on State Assets and Liabilities – 20th, April 2011

The Minister for Public Expenditure and Reform, Mr. Brendan Howlin T.D., welcomed the publication of the Report of the Review Group on State Assets and Liabilities. The Minister stated “The Report provides an in-depth assessment of the financial, commercial and regulatory issues affecting commercial State companies and other State assets. The Group has undertaken a comprehensive study of the State’s assets and liabilities, and has consulted widely with State-owned companies, regulators and independent industry experts.

The Government will now study the findings of the report and its extensive recommendations in detail. As set out in the Programme for Government non strategic assets up to a value of €2 billion will only be sold when market conditions are right and when adequate regulatory structures have been established to protect consumer interests.” The Minister thanked the members of the Review Group for their detailed analysis and comprehensive list of recommendations.

Notes

The Review Group was chaired by Mr. Colm McCarthy, School of Economics, University College Dublin. The other two members of the Group were Prof. Alan Matthews, Department of Economics, Trinity College, Dublin and Mr. Donal McNally, Second Secretary, Department of Public Expenditure and Reform.

The Review Group was given the following terms of reference by the previous Government:

1. To consider the potential for asset disposals in the public sector, including commercial state bodies, in view of the indebtedness of the State;
2. To draw up a list of possible asset disposals;
3. To assess how the use and disposition of such assets can best help restore growth and contribute to national investment priorities; and
4. To review where appropriate, relevant investment and financing plans, commercial practices and regulatory requirements affecting the use of such assets in the national interest.

The Group met with each of the State bodies examined in the Report, as well as sectoral regulators and industry experts. This broad consultation took place between September 2010 and February 2011. Details of the consultative process are included in the Report.

Appendix I - Recommendations of the Review Group on State Assets and Liabilities.

<i>Section 2: The Policy Context of Asset Sales</i>	
1.	Any programme of asset disposal should be assessed from the standpoint of its contribution to long-term economic recovery. The Group cautions against any actions which enhance short-term asset disposal prices at the cost of damage to the economy's long-run competitiveness, including specifically any failures to maximise the potential for competition or any value-enhancement of privatised entities through weak regulatory arrangements.
2.	Any privatisation legislation involving companies operating critical infrastructures in Ireland should include explicit provision for resolution or step-in powers. The United Kingdom rules provide a possible template.
<i>Section 3: Market Design and Regulatory Reform</i>	
3.	The objectives of economic regulatory agencies need to incorporate, explicitly and on a common basis, the minimisation of cost to the rest of the economy.
4.	A comprehensive review of the legislation governing economic regulatory agencies should be undertaken and necessary legislative amendments enacted prior to any state disposals.
5.	The Department of Enterprise, Trade and Innovation, which already has responsibility for competition policy, should become the parent department for all economic regulatory bodies, and should take responsibility for their supervision and performance measurement and for legislative updating.
6.	Levies on regulated entities, including license fees and other miscellaneous charges, should accrue directly to the Exchequer, and, in order to strengthen their independent role, the operating budgets of economic regulatory bodies should be a charge on the Central Fund.
7.	Central government departments responsible for policy in areas such as energy and transport should ensure that adequate internal resources are made available for the task and should avoid excessive reliance on regulatory agencies and outside consultants.
8.	Economic regulators should be relieved of responsibility for extraneous administrative functions.
9.	There should be a single regulator for the broadcasting and telecommunications (including postal) industries.

10.	The Health Insurance Authority should be absorbed by the Financial Regulator.
11.	In the event that a customer-financed water industry structure emerges, this monopoly should be regulated through expanding the role of the Commission for Energy Regulation rather than through the establishment of yet another sector regulator.
12.	A comparison should be undertaken of pay and conditions in all commercial state companies with those elsewhere in the Irish labour market and in competitor countries, in particular in the UK, in order to assure that the cost structures in these companies are competitive with their counterparts. The outcome of this review should determine the approach of economic regulators to costs allowable in tariff determination.
13.	Sector regulators should seek explicit justification of mass market advertising budgets from regulated monopolies and should disallow from cost recovery any element they deem commercially unnecessary.
14.	The legislation governing economic regulatory bodies should permit them to grandparent certain regulatory provisions for pre-existing operators when regulatory policy changes.
<i>Section 4: The Commercial State Companies in Aggregate</i>	
15.	The regular payment of a reasonable dividend to the shareholder is good practice and a performance regulator. The Group recommends that a dividend of at least 30% of profits should be paid each year except in the most unusual circumstances.
16.	The exercise of the shareholder function in all state commercial companies should be centralised in a specialised unit located in the Department of Finance. This unit should also take responsibility for whatever asset disposal programme is decided on by Government.
<i>Section 5: The Policy Framework for State Energy Companies</i>	
17.	Policymakers and the regulator should facilitate the development of gas storage capacity in Ireland on a commercial basis.
18.	If security of supply is the goal, policymakers and the regulator should facilitate the development of liquefied natural gas importation capacity in Ireland on a commercial basis.

19.	Carbon emission targets should be pursued on a least-cost basis and current targets for wind penetration in power generation should be revised downwards in the context of the adequacy of existing capacity, the diminished prospects for demand growth and the altered outlook for gas supplies and prices.
20.	An early review, before divestment, should be undertaken of the system of energy regulation in Ireland.

Section 6: Electricity Supply Board (ESB)

21.	The transmission grid, including the high-voltage system in Northern Ireland, should be transferred to EirGrid and retained in public ownership as a regulated monopoly. The transfer prices for these assets should reflect their regulated asset valuations. The Review Group notes that unbundling is not an end in itself but a policy designed to increase competition and efficiency in the industry.
22.	All hydro units should be transferred to EirGrid and should be operated by them as regulated assets.
23.	ESB should be required to dispose of further generating capacity in Ireland, the units to be sold to be selected by the CER. This should happen regardless of any ESB ownership decision. No acquirer should be permitted to bid for capacity which would bring its Irish market presence above approximately 2,000MW. There should be no regulatory inhibition to generators owning supply businesses, subject to competition law.
24.	ESB's energy supply business, electricity distribution business, generation assets (after some divestment), international investment, and consulting and engineering businesses should be sold as a single entity.
25.	Should ESB be retained in state ownership, the Group recommends that, in order to assist in deleveraging the state balance sheet, all of its overseas interests should be disposed of and there be no further expansion outside the island of Ireland.

Section 7: EirGrid and the High-Voltage Electricity Transmission Grid

26.	The Group recommends that EirGrid's Grid25 targets be re-considered in the light of demand developments and the Group's recommendations regarding reduced wind penetration.
-----	---

Section 8: Bord Gáis Éireann and Gas Industry Structure

27.	The Group recommends that BGE's regulated transmission and interconnector
-----	---

	assets should be retained in state ownership. Consideration should be given to the establishment of a distinct state body to own and operate these assets and also to the option of merging these operations into EirGrid.
28.	The Group recommends that the remaining operations of BGÉ, other than gas transmission and interconnection, be privatised as a single entity.
<i>Section 9: Seaports and Port Industry Structure</i>	
29.	The state-owned ports, including Rosslare, should be restructured into several competing multi-port companies, built around Dublin, Cork and Shannon Foynes. The Competition Authority should be consulted concerning the amalgamation process.
30.	Privatisation of some or all of the ports should be considered, ideally after the recommended restructuring. The adequacy of competition in the sector on an all-Ireland basis should be reviewed prior to privatisation and suitable regulatory arrangements instituted, if deemed necessary.
<i>Section 10: Bord na Móna</i>	
31.	The Group recommends that the Government should seek to dispose of Bord na Móna as a single entity, including peat extraction rights but not ownership of the peat lands.
<i>Section 11: Coillte Teoranta</i>	
32.	The state should initiate the disposal of Coillte's forest and non-forest assets (but not its forest land), possibly using the New Zealand Crown Forest Licence template modified to make it suitable to Irish conditions. Unforested land surplus to Coillte's requirements should be sold and the proceeds remitted to the Exchequer by way of special dividend.
33.	The replanting obligation attached to Coillte and grant-aided forestry should be discontinued.
34.	In order to minimise the national cost of climate policy, activities that sequester carbon should be treated equally to those that emit carbon. The Group supports efforts to reward forest owners for the value of carbon sequestered by new forests after 2013. For farmers in receipt of the current range of financial incentives, the Group recommends that these incentives be restructured to explicitly reward the carbon sequestration value but there is no justification for a further increase in these payments.

<i>Section 12: State Airports and Aer Lingus</i>	
35.	As an exception to its general recommendation on dividend policy, the Review Group recommends that no dividend be sought from DAA for the present.
36.	The DAA should dispose of its non-core assets, primarily overseas, as a means of substantially reducing its debt exposure. The timing of this deleveraging programme should be determined by the company board. In due course, privatisation of the airports should be considered.
37.	Whether DAA's airport assets are privatised or retained in state ownership, the regulatory arrangements need to be reviewed and in particular the scope for political intervention in capital investment decisions curtailed.
38.	The state's shares in Aer Lingus should be disposed of as soon as is opportune.
<i>Section 13: The Irish Aviation Authority</i>	
39.	The Government should explore the possibility of merging Irish air navigation operations with NATS and possibly other North-West European services. In the event of a merger, the state's share should be disposed of for the benefit of the Exchequer.
<i>Section 14: Coras Iompair Éirean (CIE)</i>	
40.	CIE's tours business, Rosslare port, Expressway and other bus businesses competing directly with private operators should be disposed of. Policy should seek to limit the level of public subsidy through greater efficiency and the amount of capital to be invested in further transport projects should be severely constrained. The Review Group recommends that the privatisation of all or part of Dublin Bus should be considered in due course, but only after government has decided on a model for competition in the Dublin bus market.
<i>Section 15: Public Service Broadcasters (RTÉ and TG4)</i>	
41.	The portion of the license fee allocated to the Broadcasting Fund, currently just 7%, should be increased substantially, in order to better equalise conditions of competition between RTÉ and private broadcasters.
42.	In the interests of transparency, the Group recommends that RTÉ's provision of Irish language content to TG4 under the provisions of the Broadcasting Acts is

	transacted on a commercial basis, and funded by TG4 from within its revenues. The respective Exchequer support of each broadcaster should be adjusted accordingly to take account of the transaction.
43.	RTÉNL should be disposed of as a regulated entity with appropriate safeguards in place to ensure its availability to the state and fitness for purpose in the event of a national emergency.
44.	In line with the position taken by the Group generally on allocation of radio frequency spectrum, the Group recommends that rights to use spectrum for broadcasting purposes are allocated using a market-based approach that promotes the most efficient management and use of the spectrum resource.
<i>Section 16: An Post and the Postal Market</i>	
45.	The grant of a new seven year licence to operate the National Lottery should be the subject of an open competition.
46.	The Group does not consider that An Post is a ready candidate for asset disposal in the near term. Instead, the focus of management must be on ensuring a sustainable future for the company through cost containment.
<i>Section 17: Irish National Stud, Horse Racing Ireland, Bord na gCon</i>	
47.	The National Stud should be disposed of.
48.	HRI should dispose of its racecourse interests if commercially satisfactory terms become available.
49.	Bord na gCon should dispose of its interests in greyhound tracks if commercially satisfactory terms become available.
50.	HRI and Bord na gCon should dispose of their Tote interests if commercially satisfactory terms become available.
<i>Section 18: Asset Management in Certain non-Commercial Sectors</i>	
51.	The Group reiterates the proposal of the Special Group on Public Service Numbers and Expenditure Programmes that there should be one state property management agency and a consolidated register of all state property howsoever owned.
52.	The Group recommends that an annual target should be set for sales of state

	property over each of the next five years and the responsibility for this should be given to a single agency.
53.	The Group recommends that a study should be completed as soon as is practicable on the means and feasibility of privatising the operations, but not the ownership, of bodies such as the Property Registration Authority.
<i>Section 19: The State's Intangible Assets</i>	
54.	The Review Group recommends the introduction of auctioning of quotas into Irish fisheries policy as part of the forthcoming reform of the Common Fisheries Policy.
55.	The Group is firmly of the view that if the granting of licences or allocation of rights or quotas confers substantial market rights, the process should involve a transparent market auction. This is the only way to secure market value for the state without controversy. For all other cases, fees should be charged to cover administrative costs, at least.