

**The Performance of Privatised Industries:**  
**A Report by NERA for the Centre for Policy Studies**

**Volume 2: Finance**

**Project Team:**  
**Stuart Holder**

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Centre for Policy Studies, 52 Rochester Row, London SW1P 1JU, tel: 0171-828-1176 fax: 0171-828-7746.

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## SUMMARY

National Economic Research Associates (NERA) was commissioned by the Centre for Policy Studies (CPS) to examine aspects of the economic record of privatised companies in the UK. The results of this work are intended for publication, as a contribution to policy debate.<sup>1</sup>

This report focuses on finance, and describes changes in the financial flows between nationalised industries and the public sector. For a group of 33 privatised companies,<sup>2</sup> which account for about 75% of total UK privatisation proceeds, we have recorded in detail the flow of funds to and from the public sector before and after privatisation for the period from 1979/80 to 1994/5. These are affected both by privatisation itself and by the improvement in companies' financial performance which has usually preceded privatisation and has typically continued when the company is in the private sector.

Before privatisation, companies would receive public funding, or make a contribution to public sector finances, through External Financing Limits (EFLs) agreed with the Treasury. They would also pay interest on accumulated Government debt (usually from the National Loans Fund), and in some cases would pay corporation tax as well.

Following privatisation, it is generally the private sector rather than the Government which receives the funds generated by the company. Instead, the Government receives the proceeds from the sale of shares in the company, and continues to receive dividend payments in respect of any residual shareholding, in addition to tax revenues which in most cases have increased significantly since privatisation. In some cases companies were privatised while owing significant amounts of debt to the Government, so the Government continues to receive interest on and eventual repayment of these debts.

Our main findings are as follows:

- the sale of shares in the 33 companies in our sample generated average proceeds of £3.5 billion a year (net of flotation costs) between 1984/5 and 1994/5;
- in addition, from 1986/7 onwards the Government has received further net inflows of between £3.3 billion and £5.8 billion a year in respect of these 33 companies which, taken as a whole, were net recipients of public sector funds in the early 1980s. This reflects three main factors:
  - a dramatic improvement in the profitability of the companies, which has led to significantly higher corporation tax receipts,

<sup>1</sup> The first report examined the safety record of the privatised companies, and is available from the Centre for Policy Studies, 52 Rochester Row, London SW1P 1JU, at a price of £20 for the main report and £50 for the Technical Appendix. Further studies will cover prices, service quality and productivity.

<sup>2</sup> Associated British Ports, BAA, British Airways, British Gas, British Steel, BT, the 17 privatised electricity companies in England, Wales and Scotland and the 10 water and sewerage companies in England and Wales.

- dividends in respect of the Government's residual shareholdings, particularly for companies (such as BT, National Power and Powergen) in which the Government initially retained a substantial shareholding, and
  - continuing interest receipts and repayments in respect of Government debt (including that owed by privatised companies);
- the private sector has received increasingly large interest and dividend payments from the 33 companies, reaching a total of £4-5 billion a year in the last few years. However, it continues both to purchase shares from the Government and also to provide further finance to the companies. Only in 1994/5 has the private sector become, for the first time in ten years, a net recipient of funds from the companies;
  - within this overall picture, there are substantial differences in the ways in which individual privatisations have affected public sector finances
    - some of the companies, including Associated British Ports, BAA, British Airways, British Steel and the water and sewerage companies, now have little or no direct impact on financial flows to and from the public sector apart from corporation tax payments (which in some, but not all, cases have risen significantly since privatisation),
    - in the case of BT, the Government has continued to receive over £1 billion a year after privatisation in the form of tax, dividends, interest and debt repayments, in addition to the proceeds from privatisation itself (which are about £14 billion over the period as a whole). In contrast, BT's net contributions to public funds in the four years before privatisation were between £50 million and £625 million a year,
    - similarly, in the shorter time since the privatisation of electricity companies in England, Wales and Scotland, the Government's receipts from tax, interest and debt repayments have generally exceeded the companies' net contributions to public funds in the period before privatisation. The Government has also received about £11 billion from the sale of shares in the companies,
    - though British Gas made substantial contributions to public sector finances in the first seven years from privatisation, much of it in the form of debt repayments and interest, it has now paid off all of its public sector debt and contributes only corporation tax payments (currently running at £200 million to £300 million a year) to public sector finances.

The experience of British Gas points to the likely longer term situation for all privatised companies. The Government has staggered some of the sales, and some of the companies have been sold with public sector debt outstanding - the impact of each of these is to spread the Government's privatisation receipts over a number of years. Eventually, however, the companies will pay off all of their public sector debt, and the Government may sell all of its remaining shares. At that stage, like most other private sector companies, corporation tax payments will provide the only remaining link with public sector finances.

## 1. INTRODUCTION

National Economic Research Associates (NERA) was commissioned by the Centre for Policy Studies (CPS) to examine aspects of the economic record of privatised companies in the UK. The results of this work are intended for publication, as a contribution to policy debate.

This report, the second in the series,<sup>3</sup> focuses on the impact on the public sector finances. It describes changes in the financial flows between nationalised industries and the public sector which have followed privatisation. For a group of 33 privatised companies (comprising Associated British Ports, BAA, British Airways, British Gas, British Steel, BT, the 17 privatised electricity companies in England, Wales and Scotland and the 10 water and sewerage companies in England and Wales, which together account for about 75% of total UK privatisation proceeds), we have recorded the flow of funds to and from the public sector before and after privatisation. These are affected both by privatisation itself and by the improvement in companies' financial performance which has usually preceded privatisation and has typically continued when the company is in the private sector.

The aim of this report is to provide a factual description of the flows of funds to and from the public sector over the last 15 years. It does not set out to identify the impact of privatisation on public sector finances, since such an exercise would require many counterfactual assumptions, in particular describing how each of the companies would have performed had they remained in the public sector. The assumptions required for such analysis would inevitably be highly uncertain.

A further reason for not addressing this question is that the impact of privatisation on public sector finances will inevitably extend beyond the companies themselves. For example, some of the privatised companies have made significant reductions in staff numbers; if some of those displaced workers have not found alternative employment and have received unemployment and other welfare benefits, then a full assessment of the financial impact of privatisation should take account of such payments. Others have made investments which would probably not have been possible in the public sector. In brief, a complete analysis would need to take account of the wider impact of the privatisation programme on the economy as a whole, and thus on overall public sector finances. One of the aims of this study is to provide a data series which can be used in future research into questions of this sort.

A conventional, if rather simple, view of privatisation is that the Government receives sale proceeds in return for relinquishing its claim on the future profits of a company. However, this report shows that the true story is more complex, and there are several different ways in which the Government has continued to receive funds from some of the privatised companies.

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<sup>3</sup> The first report examined the safety record of the privatised companies, and is available from the Centre for Policy Studies, 52 Rochester Row, London SW1P 1JU, at a price of £20 for the main report and £50 for the Technical Appendix. Further studies will cover prices, service quality and productivity.

In the next section of this report, we summarise the framework for financing nationalised industries and describe the way in which privatisation changes the relationship with public sector finances. In section 3, we set out the methodology and data used for this study. Section 4 presents our findings for the individual industries, then section 5 describes the overall picture and presents some conclusions.

The detailed data used for this study are contained in a separate Technical Appendix, which is also available from the Centre for Policy Studies (price £50).

## 2. THE FINANCING OF NATIONALISED AND PRIVATISED INDUSTRIES

### 2.1. The Control of the Nationalised Industries

The current framework for the financial control of nationalised industries was introduced following the publication of the 1978 White Paper *The Nationalised Industries* (Cmnd. 7131). This stated that, while these arrangements were based largely on controls already in place, it was important to set out a clear framework and to avoid a return to the policies of the early 1970s. In this earlier period, price restraint policies and the suspension of financial targets and economic pricing policies had contributed to mounting deficits for many of the nationalised industries, and also in some cases to sharp reductions in investment and employment.

The Government's primary aim for the remaining nationalised industries<sup>4</sup> is to ensure their effectiveness and efficiency as commercial concerns, and to strengthen them to the point where they can be transferred to the private sector or, where appropriate, remain as successful businesses within the public sector. Within this overall framework, the system of financial controls is designed to minimise the burden on taxpayers, to ensure that the industries move progressively towards earning an economic return on their assets, and to stimulate the efficiency and effectiveness of their commercial performance.

The current framework operates through a range of related measures:

- *strategic objectives* are agreed for each industry and reflected in that industry's corporate plan;
- *investment appraisals* are carried out, with most industries required to aim for an 8% rate of return on new investment;<sup>5</sup>
- *financial and performance targets* are set, usually for three year periods. For most profitable industries, financial targets are set for current cost operating profits expressed as a proportion of net assets (valued at replacement cost);
- *external financing limits (EFLs)* control the amount of finance (from grants, subsidies, loans, etc.) which industries may raise each year;<sup>6</sup>
- *monitoring* is carried out by each industry's sponsoring department and, from time to time, by efficiency audits carried out by the Monopolies and Mergers Commission.

<sup>4</sup> We follow the description set out in chapter 5 of *Public Expenditure: Statistical Analysis 1996/7*, H M Treasury, March 1996.

<sup>5</sup> This target is for the real rate of return, before interest and tax.

<sup>6</sup> Strictly, the term EFL should be applied to targets rather than outturns. For simplicity, we have used the term to refer to both.



In practice, this means that the operating costs and capital expenditure of nationalised industries have been subject to scrutiny by both the sponsoring department and the Treasury. Investment expenditure, in particular, might come under pressure as it is judged not merely on its own merits but in comparison with other items of public expenditure which could be financed instead.

For nationalised industries operating in competitive markets (before they were privatised, Associated British Ports, British Airways and British Steel might have been included in this category), such controls are supplemented and perhaps in some cases rendered irrelevant by the additional constraints of market forces. Such industries have sometimes competed against nationalised industries from other countries, with competition affected not only by the relative efficiency of the companies but also the amount and nature of public support made available to each.

## 2.2. Public Sector Financing of the Nationalised Industries

The most obvious way in which nationalised industries affect public sector finances is through their external financing requirements, with each industry's EFL setting the target for its net use of external funds (i.e. funds supplied by external lenders rather than generated from its own trading or other activities). For companies generating insufficient funds internally, the agreed EFL was usually intended to represent a loan rather than a subsidy, either from the Government, in the form of loans from the National Loans Funds (NLF) or Public Dividend Capital,<sup>7</sup> or from other lenders (overseas lenders or, for short term purposes, banks and money markets). Those companies able to generate sufficient internal funds were expected to use any excess funds to repay their debts (including those owed to the Government).

Even in cases where companies have made substantial use of overseas and short-term loans, it is the total EFL which is carried forward for public expenditure control purposes and contributes to the total Public Sector Borrowing Requirement (PSBR). The EFL records, therefore, each industry's contribution to overall public sector borrowing, whether it is borrowing the company has undertaken itself, or whether it has received government loans and thereby changed the balance of the Government's own income and expenditure. For some companies, particularly in the run up to privatisation, the EFL was negative, meaning that the company was reducing its net external borrowing - this would either reduce public sector borrowing or allow increased public spending within the same overall PSBR.

However, the EFLs do not record the entire contribution of the nationalised industries to public sector finances. A number of nationalised industries made substantial corporation tax payments even while they were in the public sector, and almost all of the companies

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<sup>7</sup> Public Dividend Capital was made available to a small number of companies (including British Aerospace, British Airways, British Shipbuilders, British Steel and National Girobank) expected both to be fully viable and also especially subject to cyclical fluctuations. While dividend payments could be reduced (or not paid at all) in bad years, over the business cycle as a whole they were expected to provide an amount at least equivalent to the interest which would have been paid on similar NLF loans.

included in our sample<sup>8</sup> paid interest on NLF loans or dividends on Public Dividend Capital to the Government at some time during the 1980s while they were still under public ownership. Such tax, interest and dividend payments, though not included in the industries' EFLs, contributed to government revenues and therefore also to overall public sector finances.

### 2.3. Changes on Privatisation

The most obvious impact of privatisation on public sector finances is the often substantial inflow of funds from the sale of shares in a state-owned company. Whereas the company will previously have received funding from the public sector, and paid interest on NLF loans or dividends on Public Dividend Capital (as well as corporation tax), the now privatised company should have far fewer linkages with public sector finances. The company will still pay corporation tax, but dividends will be paid to private sector shareholders and, once any remaining public sector debt has been repaid, interest will be paid only to private sector lenders. The private sector will also provide any additional finance required by the company (usually in the form of loans, though sometimes through the purchase of new shares or bonds), or it may see its loans repaid in years when the company has sufficient funds available.

In practice, the situation is usually more complex. Among the firms in our sample, there are no cases where the Government sold 100% of the shares in a single flotation. In many cases it retained a small residual shareholding, some part of which might have been earmarked for purposes such as providing bonus shares to private investors; in a few cases, moreover, the Government sold shares in several tranches, and therefore retained a substantial shareholding until after the sale of the last tranche. As a shareholder, the Government will of course have received dividend payments from the company.

In addition, privatisation was often preceded by a substantial financial restructuring of the state-owned company. In some cases, this was simply to write-off government debt, with the result that the Government did not receive the interest payments and eventual debt repayments to which it would otherwise have been entitled after privatisation. For the water and sewerage companies, debt write-offs were accompanied by net cash injections totalling £1.5 billion, representing an outflow from public funds at the time of privatisation.

A number of the companies in our sample, rather than having their debts written off, were privatised with significant amounts of public sector debt outstanding, usually in the form of medium to long term debt specially created at the time of privatisation. In these cases, the Government continued to receive both interest payments and debt repayments after privatisation. In the case of BT, the Government also raised funds (in November 1992) by selling to the private sector debt owed by BT to the public sector.

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<sup>8</sup> The only exception is British Gas, which had funds deposited with the National Loans Fund and therefore received interest payments from the Government.

Finally, specific measures were included in some privatisations which created additional flows between privatised companies and public sector finances. Among the companies in our sample, a number of the electricity companies are subject to a clawback mechanism, requiring them to share with the Government any income above an agreed level generated from property disposals.

### 3. METHODOLOGY AND DATA SOURCES

#### 3.1. Methodological Framework

In this report, we focus on *cash flows*. The main reason for this is that EFLs and the overall Public Sector Borrowing Requirement are also measures of cash flow - they record funds which are actually borrowed by a nationalised industry or by the public sector in any one year, and make no attempt to take account of expected future flows even if these have changed significantly during the year. Thus, for example, we have recorded the dividends actually paid to shareholders in each year, rather than those which the company decides to pay on the basis of the company's financial performance in that year.

A further reason for adopting this approach is the difficulty (perhaps even the impossibility) of the main alternative, which would be to measure changes in value, including changes in expected future payments and receipts.

This has important implications for the flows which we record in this study. For example, we do not show public sector debt written-off (or created) at the time of privatisation, since no money changes hands at the time. That is not to say, however, that debt write-offs do not affect our results, since they mean that the Government's future receipts from interest and debt repayments will be lower than they would have been, though the proceeds from flotation should be higher if the company is privatised with fewer debts.

Similarly, we show the amounts actually received from selling shares, rather than the value of shares sold (which might include, for example, the full value of shares which are sold at a discount or given free of charge to certain investors). Since, in many cases, shares were paid for in several instalments, privatisation proceeds are often spread over several years.

The data presented in this report are in *current prices*, that is to say they have not been corrected for inflation. This is appropriate, since the study aims simply to describe the flow of funds to and from the public sector. Nevertheless, when looking at our results it should be remembered that prices increased significantly over the period.<sup>9</sup>

#### 3.2. Description of Flows

We have recorded the following flows to (or from) public sector finances in respect of the nationalised or privatised industries:

- *net proceeds from privatisation* - the amounts actually received each year from the sale of shares to the private sector (either flotations or market sales of smaller quantities of shares), less the additional costs incurred by the Government as a result of the

<sup>9</sup> For example, the Retail Price Index increased by 53% between 1979/80 and 1984/5, 30% between 1984/5 and 1989/90, and by 24% between 1989/90 and 1994/5, giving a total increase of 146% for the period as a whole.

sales.<sup>10</sup> In the case of the water and sewerage companies, the data for 1989/90 are shown, as in the government's own statistics, after deducting the cash injection of £1.5 billion which was provided to the companies shortly before privatisation;

- *external financing repayments* - net repayments of Government, foreign and short-term debt by public sector companies. Net borrowings, which would be shown in Government accounts as a positive EFL, are shown here as negative amounts (since they are outflows from public sector finances);
- *debt repayments and share redemptions* - repayments of public sector debt by privatised companies (similar repayments by nationalised industries would be included in their EFLs), including debt bought back by BT and some of the electricity companies. For BT, we also show redemption payments in respect of preference shares held by the Government after privatisation;
- *interest received on government debt* - either interest paid on NLF loans by the nationalised industries or interest paid on public sector debt by privatised companies;
- *corporation tax received* - including, for privatised companies, Advance Corporation Tax payments;
- *dividends received* on the Government's residual shareholdings in privatised companies, and also from nationalised industries in respect of Public Dividend Capital;
- *other flows*, which include:
  - proceeds from the sale to the private sector of public sector debt owed by BT, less the costs incurred in both these sales and other sales which resulted in debt being bought back by BT and some of the electricity companies, and
  - receipts from electricity companies in respect of property income clawback arrangements established at the time of privatisation.

There are a number of other financial transactions between companies and the Government which are not directly related to privatisation (though they may be affected by changes resulting from privatisation, for example if there is a change in the size of the workforce) and which we have not measured. These include items which are usually regarded as part of a company's costs, such as National Insurance contributions and rates, and also receipts of Government grants and other forms of support which are available to both public and private sector firms.

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<sup>10</sup> These include underwriting costs; selling, distribution and broking commissions; banks' printing costs; marketing costs and advisers' fees, less any interest received on share application money. They do not include the cost of work undertaken by Government departments in relation to privatisations.

We have also recorded a number of financial flows between the 33 companies and the rest of the private sector in order to show how the private sector has taken on the role previously carried out by the Government. These include:

- *purchase of shares (and debt)*, including the total amounts paid (before deducting any costs) by the private sector for shares in privatised companies, both at flotation and on disposal of the Government's residual shareholdings, and also for debt previously owed by BT to the Government;
- *financing repayments*, which show the net funding repaid by the privatised companies to the rest of the private sector (negative entries indicate additional finance provided to the privatised companies). These are equivalent to the companies' EFLs before privatisation;
- *interest received*, which shows the total interest paid by the companies less amounts paid to the Government. Even before privatisation, companies paid interest to parties other than the Government, for example on foreign and short term loans;<sup>11</sup>
- *dividends received*, which shows total dividends paid by the companies less those paid to the Government.

### 3.3. Data Sources and Assumptions

Most of the data used in this study were taken from the Annual Reports and Accounts of the individual companies, together with those of their public sector predecessors.<sup>12</sup> Other sources of data were:

- government statistics - data on the nationalised industries' EFLs and on privatisation proceeds were obtained from statistical analyses of the Government's expenditure plans published each year by H M Treasury;<sup>13</sup>
- other H M Treasury publications, which give details of the Government's residual shareholdings and the timing of recent disposals;<sup>14</sup>
- reports by the Comptroller and Auditor General (published by the National Audit Office), which give details of the costs incurred by each flotation and also describe the recent sales of public sector debt owed by BT and some of the electricity companies;

<sup>11</sup> The water companies, in particular, also received significant funding from local authorities and from the European Investment Bank.

<sup>12</sup> For the English and Welsh electricity companies these include the Electricity Council, which dealt with public sector funding transactions on behalf of both the Central Electricity Generating Board and the area boards.

<sup>13</sup> This annual publication has appeared under various titles, including *The Government's Expenditure Plans, Public Expenditure Analyses* and *Public Expenditure*.

<sup>14</sup> *Her Majesty's Treasury Guide to the UK Privatisation Programme* (August 1995) and a separate table showing Government shareholdings in each company in 1995.

- sale prospectuses, which give details of the financial structure of the soon to be privatised companies, including interest rates and repayment dates on government debt (most but not all companies also show this information in their Annual Reports and Accounts);
- EXTEL company profiles, for details of share prices and number of shares issued, and the *Financial Times*, for interest rates.

In general, we have been able to obtain satisfactory data for most items from publicly available sources. Nevertheless, we have had to make a few minor assumptions about the timing of some flows (where companies report results for calendar rather than financial years, or where they do not show tax and interest paid, as opposed to tax and interest payable). In addition, there are a small number of cases where we have had to make additional assumptions or where the data available have been less than ideal. These are:

- before 1989, EFLs and interest on government debt for the whole electricity supply industry in England and Wales were provided through the Electricity Council, covering nuclear power generation as well as the companies in our sample. Similarly, the predecessors of the two privatised Scottish electricity companies were split into both these companies and Scottish Nuclear. We have not attempted to adjust the data to take account of these inconsistencies;<sup>15</sup>
- before privatisation, the Annual Reports and Accounts for the water and sewerage companies and the Scottish electricity companies identify interest payments on government debt in some but not all years. Where these data are not shown, we have assumed that interest payments are divided between the Government and other lenders in proportion to their shares of the total debt owed by the companies;
- while some company Annual Reports and Accounts list either the number or the proportion of shares held by the Government, and we also have data on shareholdings in 1995 and disposals before this, the purpose and timing of other minor changes (usually less than 0.2% of shares) in the Government's shareholdings is uncertain. Where the timing is uncertain, we have assumed that changes are spread evenly throughout the period in question,<sup>16</sup> and where the reason is uncertain, we have assumed that they reflect transactions, such as the issue of bonus shares, which do not generate additional revenues for the Government;
- no data are available for interest on government debt paid by BT in 1979/80, when it was still part of the Post Office. For 1980/1, interest payments are included in the

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<sup>15</sup> If we were able to exclude nuclear power generation from the pre-privatisation data, the likely impact would be to increase the external financing repayments to the Government, particularly in England and Wales.

<sup>16</sup> A detailed breakdown of our assumptions is provided in Table A1.1 of Appendix 1.

comparative data shown in BT's 1981/2 Annual Report and Accounts, and for both 1979/80 and 1980/1, EFLs are listed in historical data published by H M Treasury (even though there was no separately identified EFL for BT at the time).

Further details of the sources, adjustments and assumptions relevant to each flow are given in Appendix 1.



## 4. CASE HISTORIES

### 4.1. Associated British Ports

Associated British Ports (ABP), formerly the British Transport Docks Board, was the first of the companies in our sample to be privatised. The Government sold 51.5% of the shares in February 1983, and the remainder in April 1984, yielding total net proceeds of £93 million. In addition, though it wrote-off £81 million of public sector debt, the Government created new debts of £25 million which ABP repaid at the time of privatisation.

As can be seen from Table 4.1 below, which summarises the flows to and from the public sector, ABP provides a good example of the type of privatisation in which the Government quickly severs most of its financial links with the privatised firm. In the three years before privatisation, ABP had been making total tax and interest payments to the Government of £11-14 million a year, with EFL payments of up to £13 million flowing both to and from the public sector. Within fourteen months of privatisation, ABP had repaid its public sector debt and the Government had sold all of its shares, so the only remaining flow of funds to the public sector was corporation tax, which was usually no higher than £6 million a year.

In contrast, private sector shareholders and lenders started to receive increasingly large dividend and interest payments, reaching £50 million a year or more by the 1990s. The private sector was also providing substantial amounts of finance, usually in the form of loans, to the privatised company.

### 4.2. BAA

BAA, formerly the British Airports Authority, was privatised in July 1987 when the Government sold 95.6% of the shares (the remaining shares were retained to cover potential bonus share issues), raising net proceeds of almost £1.2 billion. The Government sold a further 1.4% from its remaining shareholding in August 1990. Table 4.2 shows the flows of funds between BAA and the public sector.

The privatisation of BAA provides another example of the Government reducing its financial links with a company, since all of BAA's public sector debt had been repaid by the time of privatisation, and the Government retained only a small shareholding after privatisation (giving dividend payments of £1-3 million a year). However, BAA's corporation tax payments have risen substantially since 1987, and are now higher than the flows of interest, tax or EFL payments which the Government received from (or paid to) BAA when it was a state-owned company.

The private sector also receives dividend and interest payments which are very much higher than those which BAA paid to the Government before privatisation, and in some years the private sector has also provided significant amounts of additional finance, usually in the form of loans.

### 4.3. British Airways

Table 4.3 shows the flow of funds to and from British Airways (BA), which was privatised in January 1987. The Government sold 97.5% of the shares, giving net proceeds of £825 million, then sold a further 1% of the shares in June 1987 and again in March 1990.

Since BA was privatised with no outstanding public sector debt,<sup>17</sup> and the Government retained only a small residual shareholding, the data again show relatively small payments to the public sector after privatisation, mostly comprising corporation tax payments. Pre-privatisation, however, the data show significant outflows from public sector funds in the early 1980s, changing to equally large inflows in the mid-1980s as BA was prepared for privatisation. Although BA also made modest tax, interest and dividend payments to the Government, these were dwarfed by the much larger external financing flows, first from the public sector to BA and then from BA to the public sector.

While the private sector has received healthy interest and dividend payments from BA, these have not been significantly larger than the EFL payments from BA to the Government in the last two to three years before privatisation. In most years, the private sector has also provided additional finance to BA, through both an increase in net lending and the purchase of new shares issued by BA.

### 4.4. British Gas

In December 1986, the Government sold 96.7% of the shares in British Gas, yielding net proceeds of about £5 billion. Of the remaining 3.3% of shares, which were retained for possible bonus shares, 1.6% were sold in January 1990 and a further 1.6% in July of the same year.

Table 4.4, which summarises the relevant cash flows, shows very substantial inflows to public sector finances for the first seven years from privatisation, then more modest receipts in the remaining years. This reflects the fact that £2.5 billion of public sector debt was created at the time of privatisation, to be repaid by British Gas at regular intervals over the following six years. In addition to the privatisation proceeds, therefore, the Government continued to receive interest on and repayments of this debt until the final repayment was made in April 1992.

In the following two years, the Government received only dividends on its very small residual shareholding and corporation tax payments of £220-300 million a year, which are similar in real terms to the corporation tax payments made by British Gas in the five years before privatisation. Unusually, the Government paid interest to British Gas in the years before privatisation, since British Gas held deposits with (rather than borrowed from) the National Loans Fund, but the Government also benefited from substantial EFL receipts (usually £200-400 million a year) in the seven years before privatisation.

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<sup>17</sup> BA had already paid off its NLF loans, and the public dividend capital was converted into BA's ordinary share capital.

Although it continues to provide some additional loan finance, the private sector now receives about £1 billion a year in interest and dividend payments from British Gas, and for the last four years has been a net recipient of funds.

#### 4.5. British Steel

The most noticeable feature of Table 4.5, which shows flows of funds to and from British Steel, is the very substantial EFL payments which the Government made to British Steel in the early 1980s - an average of over £600 million a year between 1979/80 and 1985/6, peaking at £1.1 billion in 1980/1. This was followed by a rapid turnaround - by 1987/8, British Steel was making EFL repayments to the Government, and in December 1988 the Government sold 99.95% of the shares, raising net proceeds of almost £2.4 billion. A further 0.04% of shares were sold during 1989.

Following privatisation, flows of funds to either the public or private sectors have been relatively modest. After reaching a peak in 1990/1, the Government's corporation tax receipts have tailed off, while the private sector has received interest and dividend receipts which are generally less than £200 million a year.

#### 4.6. BT

In direct contrast to the case of British Steel, the flows of public sector funds to and from BT increased dramatically after privatisation. In November 1984, the Government sold 50.2% of the shares in BT, followed by further sales of 21.9% in December 1991 and 19.7% in July 1993, raising net proceeds of almost £14 billion. From its residual shareholding, the Government also disposed of 0.8% of shares in December 1987, and a further 0.6% in January 1995.

As can be seen in Table 4.6, whereas in the four years before privatisation BT contributed up to £625 million a year to public sector funds, since privatisation it has generally contributed between £1 billion and £2.4 billion a year in addition to the privatisation proceeds. There are three main reasons for these substantial contributions:

- BT was privatised with £2.75 billion of public sector debt outstanding, plus £750 million of Government-owned redeemable preference shares. Thus the Government has continued to receive both interest payments and debt repayments (or share redemptions), contributing an average of over £500 million a year to public sector funds. It raised a further £504 million in November 1992 by selling some of BT's public sector debt to the private sector;
- until December 1991, the Government still owned almost half of the shares in BT, and therefore received dividend payments of £270-370 million a year;
- as BT's profits increased, it started making substantial corporation tax payments, contributing an average of over £900 million a year between 1987/8 and 1994/5.

The private sector has also benefited, receiving dividend payments in excess of £1 billion in 1994/5, and interest payments of £290 million.

#### 4.7. Electricity Companies (England and Wales)

Before privatisation, the electricity supply industry in England and Wales consisted of the Central Electricity Generating Board (CEGB), which was responsible for electricity generation and transmission, and the 12 area electricity boards, which were responsible for electricity distribution and supply. The area boards, which became the Regional Electricity Companies (RECs), were privatised in December 1990 when the Government sold an average of 98.5% of the shares in each company (it sold a further 0.8% of shares in January 1994). The CEGB was split into several different companies: non-nuclear generation was divided between National Power and Powergen, for which the Government sold 60% of shares in March 1991 and a further 36.7% in March 1995; and transmission was undertaken by the National Grid Company, which was set up as a jointly-owned subsidiary of the RECs. Only nuclear power generation remained in the public sector (and for several years continued to be a net recipient of public sector funds).

Table 4.7 shows the financial flows for all of the privatised electricity companies in England and Wales.<sup>18</sup> For four years before privatisation, the industry made substantial contributions (well over £1 billion a year) to public sector finances. Government receipts have remained at this level or higher since privatisation (in addition to privatisation proceeds averaging £1.7 billion a year), mainly as a result of interest on and repayments of public sector debt, substantial corporation tax payments and also some dividend payments. The private sector has also benefited from modest interest payments and from increasing dividend payments, reaching almost £1 billion in 1994/5.

To a large extent, the situation for each of the individual companies is similar to that reflected in the overall figures. Significantly, a number of the companies (including National Power, Powergen and nine of the RECs) have now repaid all of their public sector debt, and so in future will contribute only corporation tax payments (plus dividends in respect of the Government's small residual shareholdings) to public sector finances.

#### 4.8. Electricity Companies (Scotland)

Before privatisation, electricity in Scotland was provided by the South of Scotland Electricity Board and the North of Scotland Hydro-Electric Board. While these are largely the predecessors of the current privatised companies, Scottish Power and Scottish Hydro-Electric, nuclear power generation was separated out, as in England and Wales, and has remained in the public sector.

<sup>18</sup> While post-privatisation data for each company can be obtained from the relevant Annual Reports and Accounts, pre-privatisation data are generally presented (either in HM Treasury publications or Annual Reports and Accounts for the Electricity Council) for the sector as a whole, including nuclear generation.

Scottish Power and Scottish Hydro-Electric were privatised in June 1991, when the Government sold an average of 96.5% of the shares in each company.<sup>19</sup> Throughout the 1980s, EFL payments to the companies had been approximately offset by interest payments on public sector debt, so the companies were sometimes net contributors to and sometimes net recipients of public sector funds. In the short time since privatisation, the companies have contributed an average of over £200 million a year in the form of debt interest and repayments, as well as corporation tax payments of about £100 million a year. Scottish Hydro-Electric has now repaid all of its public sector debt, while Scottish Power has repaid almost two-thirds of the amount owing at the time of privatisation.

#### 4.9. The Water and Sewerage Companies

The 10 water and sewerage companies in England and Wales were privatised in December 1989, when the Government sold about 98% of the shares in each of the companies (it disposed of a further 0.8% of the shares in January 1993). Although this flotation raised net proceeds of over £4.7 billion, the Government had provided a cash injection of £1.5 billion to the companies shortly before privatisation (and, though not directly affecting our analysis, had also written-off £5 billion of public sector debt).<sup>20</sup> As in the Government's own statistics, this cash injection has been deducted from the privatisation proceeds for 1989/90 shown in Table 4.9 below.

Before privatisation, the water companies were net recipients of EFL payments from the Government. As the companies required less funding in the run up to privatisation, their interest payments on government debt started to exceed their EFL receipts and from 1982/3 they became net contributors to public sector funds. Since privatisation, the companies have made modest corporation tax payments, and the Government has also received dividend payments in respect of its small residual shareholdings.

The private sector has received dividend payments of £300-£550 million a year since privatisation, and is now receiving a similar amount in the form of interest payments. It provided significant amounts of new loan finance (over £1 billion a year) in the first two years after privatisation, and is continuing to do so, though at a slower rate.

<sup>19</sup> Some of the remaining shares were earmarked for bonus shares, which were issued during 1994/5.

<sup>20</sup> As explained in section 3 above, debt write-offs will affect future rather than current cash flows. While no money changes hands when the debt is written-off, the Government's future receipts from interest and debt repayments will be lower than they would have been, and proceeds from the sale of shares should be higher if a company is privatised with fewer debts.

**Table 4.1: Associated British Ports**

PUBLIC SECTOR FLOWS <sup>1</sup>		31-Mar-80	31-Mar-81	31-Mar-82	31-Mar-83	31-Mar-84	31-Mar-85	31-Mar-86	31-Mar-87	31-Mar-88	31-Mar-89	31-Mar-90	31-Mar-91	31-Mar-92	31-Mar-93	31-Mar-94	31-Mar-95	
(£ million)		Year ended																
Net Privatisation Proceeds		44																
Other Flows to Public Sector		49																
External financing repayments <sup>3</sup>	7	-1	-13	12	25													
Debt repayments and share redemptions	6	6	5	4														
Interest received on government debt	8	8	6	2		0.4	1	2	2	6	12	12	6	2	2	3	5	
Corporation tax received						1	1											
Dividends received	21	13	-2	43	1	1	3	2	2	6	12	12	6	2	2	3	5	
<b>Total Other Flows</b>	<b>21</b>	<b>13</b>	<b>-2</b>	<b>87</b>	<b>1</b>	<b>52</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>6</b>	<b>12</b>	<b>12</b>	<b>6</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>5</b>	
<b>TOTAL FLOWS TO PUBLIC SECTOR</b>		<b>21</b>	<b>13</b>	<b>-2</b>	<b>87</b>	<b>1</b>	<b>52</b>	<b>2</b>	<b>2</b>	<b>6</b>	<b>12</b>	<b>12</b>	<b>6</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>5</b>	
PRIVATE SECTOR FLOWS <sup>2</sup>		-51																
(£ million)		Year ended																
Share Purchases		-46																
Other Flows to Private Sector		-51																
External financing repayments <sup>3</sup>	1	2	2	-25	10	-0.5	-5	-5	-5	-34	-97	-144	-62	42	-11	5	4	
Interest received				2	2	2	2	3	8	17	17	36	49	51	39	35	33	
Dividends received	1	2	2	2	1	2	4	4	6	7	7	10	12	14	15	16	18	
<b>Total Other Flows</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>-23</b>	<b>13</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>-20</b>	<b>-73</b>	<b>-73</b>	<b>-99</b>	<b>-1</b>	<b>107</b>	<b>43</b>	<b>56</b>	<b>55</b>	
<b>TOTAL FLOWS TO PRIVATE SECTOR</b>		<b>1</b>	<b>2</b>	<b>2</b>	<b>-69</b>	<b>13</b>	<b>-48</b>	<b>1</b>	<b>3</b>	<b>-20</b>	<b>-73</b>	<b>-99</b>	<b>-1</b>	<b>107</b>	<b>43</b>	<b>56</b>	<b>55</b>	

(1) Cash flows from Associated British Ports/British Transport Docks Board to (the rest of) the public sector. Negative signs indicate that the company was a net recipient of public sector funds.

(2) Cash flows from Associated British Ports/British Transport Docks Board to (the rest of) the private sector. Negative signs indicate that the company was a net recipient of funds from the rest of the private sector.

(3) A negative entry indicates that Associated British Ports/British Transport Docks Board was a net recipient of financing from either the public sector (this would be shown in government statistics as a positive EFL) or the private sector.

**Table 4.2: British Airports Authority**

PUBLIC SECTOR FLOWS <sup>1</sup> (£ million)	31-Mar-80	31-Mar-81	31-Mar-82	31-Mar-83	31-Mar-84	31-Mar-85	31-Mar-86	31-Mar-87	31-Mar-88	31-Mar-89	31-Mar-90	31-Mar-91	31-Mar-92	31-Mar-93	31-Mar-94	31-Mar-95
	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended
Net Privatisation Proceeds									493	689						15
Other Flows to Public Sector	0	-18	-2	-2	-18	-10	21	-17	9							
External financing repayments <sup>3</sup>	4	4	4	4	4	4	3	3	46	61	61	77	46	54	70	80
Interest received on government debt	14	13	21	14	3	0.2	23	23	1	2	2	2	2	2	2	3
Corporation tax received									56	63	63	79	48	56	72	83
Dividends received	18	-2	23	16	-11	-6	24	9								
Total Other Flows	18	-2	23	16	-11	-6	24	9	549	752	63	94	48	56	72	83
<b>TOTAL FLOWS TO PUBLIC SECTOR</b>	<b>18</b>	<b>-2</b>	<b>23</b>	<b>16</b>	<b>-11</b>	<b>-6</b>	<b>24</b>	<b>9</b>	<b>549</b>	<b>752</b>	<b>63</b>	<b>94</b>	<b>48</b>	<b>56</b>	<b>72</b>	<b>83</b>
<b>PRIVATE SECTOR FLOWS <sup>2</sup></b> (£ million)																
Share Purchases									-534	-689						
Other Flows to Private Sector									-36	-279	-206	-280	-51	73	27	-141
External financing repayments <sup>3</sup>									4	32	53	88	101	101	87	89
Interest received									14	37	48	59	66	74	82	91
Dividends received	0.04	0.02	0.01		0.4	2	4	4	-18	-209	-105	-133	116	248	196	39
Total Other Flows	0.04	0.02	0.01		0.4	2	4	4	-18	-209	-105	-148	116	248	196	39
<b>TOTAL FLOWS TO PRIVATE SECTOR</b>	<b>0.04</b>	<b>0.02</b>	<b>0.01</b>		<b>0.4</b>	<b>2</b>	<b>4</b>	<b>4</b>	<b>-552</b>	<b>-898</b>	<b>-105</b>	<b>-148</b>	<b>116</b>	<b>248</b>	<b>196</b>	<b>39</b>

- (1) Cash flows from British Airports Authority to (the rest of) the public sector. Negative signs indicate that the company was a net recipient of public sector funds.  
(2) Cash flows from British Airports Authority to (the rest of) the private sector. Negative signs indicate that the company was a net recipient of funds from the rest of the private sector.  
(3) A negative entry indicates that British Airports Authority was a net recipient of financing from either the public sector (this would be shown in government statistics as a positive EFL) or the private sector.

Table 4.4: British Gas

PUBLIC SECTOR FLOWS <sup>1</sup> (£ million)	31-Mar-80	31-Mar-81	31-Mar-82	31-Mar-83	31-Mar-84	31-Mar-85	31-Mar-86	31-Mar-87	31-Mar-88	31-Mar-89	31-Mar-90	31-Mar-91	31-Mar-92	31-Mar-93	31-Mar-94	31-Mar-95	
	Year ended																
Net Privatisation Proceeds																	
Other Flows to Public Sector	447	409	-39	230	45	189	190	684	1,645	1,758	1,555	158	302	4			
External financing repayments <sup>3</sup>								758			250	800	350	350			
Debt repayments and share redemptions								86	194	167	123	77	40				
Interest received on government debt	-16	-37	-49	-43	-44	-47	-40	410	553	479	390	361	265	618	302	220	
Corporation tax received			154	196	234	131	262	9	9	12	11	1	1	0.4	0.3	0.1	
Dividends received	431	372	66	383	236	273	412	1,938	756	908	1,324	789	305	968	302	220	
Total Other Flows	431	372	66	383	236	273	412	3,583	2,514	2,463	1,482	1,090	309	968	302	220	
<b>TOTAL FLOWS TO PUBLIC SECTOR</b>	<b>431</b>	<b>372</b>	<b>66</b>	<b>383</b>	<b>236</b>	<b>273</b>	<b>412</b>	<b>3,583</b>	<b>2,514</b>	<b>2,463</b>	<b>1,482</b>	<b>1,090</b>	<b>309</b>	<b>968</b>	<b>302</b>	<b>220</b>	
PRIVATE SECTOR FLOWS <sup>2</sup>																	
(£ million)	Year ended	31-Mar-80	31-Mar-81	31-Mar-82	31-Mar-83	31-Mar-84	31-Mar-85	31-Mar-86	31-Mar-87	31-Mar-88	31-Mar-89	31-Mar-90	31-Mar-91	31-Mar-92	31-Mar-93	31-Mar-94	31-Mar-95
Share Purchases																	
Other Flows to Private Sector									-1,820	-1,758	-1,555	-158	-302	-4			
External financing repayments <sup>3</sup>								96	96	-592	-67	-570	-1,252	-559	-911	-32	231
Interest received	66	48	35	43	34	32	26	19	19	9	83	108	168	309	381	375	319
Dividends received	66	48	35	43	34	32	26	115	261	333	391	470	553	532	614	629	629
Total Other Flows	66	48	35	43	34	32	26	115	-322	349	-72	-614	303	2	956	1,179	1,179
<b>TOTAL FLOWS TO PRIVATE SECTOR</b>	<b>66</b>	<b>48</b>	<b>35</b>	<b>43</b>	<b>34</b>	<b>32</b>	<b>26</b>	<b>-1,705</b>	<b>-2,080</b>	<b>-1,206</b>	<b>-230</b>	<b>-915</b>	<b>2</b>	<b>299</b>	<b>956</b>	<b>1,179</b>	<b>1,179</b>

(1) Cash flows from British Gas to (the rest of) the public sector. Negative signs indicate that the company was a net recipient of public sector funds.  
(2) Cash flows from British Gas to (the rest of) the private sector. Negative signs indicate that the company was a net recipient of funds from the rest of the private sector.  
(3) A negative entry indicates that British Gas was a net recipient of financing from either the public sector (this would be shown in government statistics as a positive EFL) or the private sector.



Table 4.5: British Steel

PUBLIC SECTOR FLOWS <sup>1</sup>		31-Mar-80	31-Mar-81	31-Mar-82	31-Mar-83	31-Mar-84	31-Mar-85	31-Mar-86	31-Mar-87	31-Mar-88	31-Mar-89	31-Mar-90	31-Mar-91	31-Mar-92	31-Mar-93	31-Mar-94	31-Mar-95
(£ million)		Year ended															
Net Privatisation Proceeds											1,093	1,288					
Other Flows to Public Sector																	
External financing repayments <sup>3</sup>		-579	-1,119	-766	-568	-318	-523	-411	-22	290	392						
Interest received on government debt		80	63								1	28	126	65	3	-22	7
Corporation tax received											0.04	0.02	0.01	0.002	0.001	0.001	
Dividends received											28	28	126	65	3	-22	7
Total Other Flows		-499	-1,056	-766	-568	-318	-523	-411	-22	290	393	28	126	65	3	-22	7
TOTAL FLOWS TO PUBLIC SECTOR		-499	-1,056	-766	-568	-318	-523	-411	-22	290	1,486	1,316	126	65	3	-22	7
PRIVATE SECTOR FLOWS <sup>2</sup>																	
(£ million)		Year ended															
Share Purchases											-1,138	-1,288					
Other Flows to Private Sector																	
External financing repayments <sup>3</sup>		108	120	104	108	69	70	54	20	17	12	-44	43	-162	-54	105	38
Interest received											64	12	23	34	57	46	40
Dividends received											155	170	170	175	30	30	70
Total Other Flows		108	120	104	108	69	70	54	20	17	76	123	236	47	33	181	148
TOTAL FLOWS TO PRIVATE SECTOR		108	120	104	108	69	70	54	20	17	-1,062	-1,165	236	47	33	181	148

(1) Cash flows from British Steel to (the rest of) the public sector. Negative signs indicate that the company was a net recipient of public sector funds.

(2) Cash flows from British Steel to (the rest of) the private sector. Negative signs indicate that the company was a net recipient of funds from the rest of the private sector.

(3) A negative entry indicates that British Steel was a net recipient of financing from either the public sector (this would be shown in government statistics as a positive EFL) or the private sector.

**Table 4.6: British Telecom**

PUBLIC SECTOR FLOWS <sup>1</sup>		31-Mar-80	31-Mar-81	31-Mar-82	31-Mar-83	31-Mar-84	31-Mar-85	31-Mar-86	31-Mar-87	31-Mar-88	31-Mar-89	31-Mar-90	31-Mar-91	31-Mar-92	31-Mar-93	31-Mar-94	31-Mar-95
Year ended																	
(£ million)																	
Net Privatisation Proceeds							1,206	1,246	1,081	104				1,559	3,544	3,677	1,667
Other Flows to Public Sector																	
External financing repayments <sup>3</sup>		-300	109	-250	323	225	341	61	303	273	335	92	100	106	489	124	685
Debt repayments and share redemptions							44	336	328	321	318	307	296	283	238	167	106
Interest received on government debt			285	298	302	290	318	128	494	916	999	858	885	890	959	599	1,170
Corporation tax received							4	269	300	312	313	323	370	318	200	10	8
Dividends received							10								504		-0.1
Other		-300	394	48	625	515	717	794	1,425	1,822	1,965	1,580	1,651	1,598	2,390	900	1,969
Total Other Flows		-300	394	48	625	515	1,923	2,040	2,506	1,926	1,965	1,580	1,651	3,156	5,934	4,577	3,636
TOTAL FLOWS TO PUBLIC SECTOR																	
PRIVATE SECTOR FLOWS <sup>2</sup>																	
Year ended																	
(£ million)																	
Share (and Debt) Purchases							-1,358	-1,246	-1,081	-104				-1,666	-4,048	-3,773	-1,667
Other Flows to Private Sector																	
External financing repayments <sup>3</sup>							108	-124	119	-230	-640	-774	-389	231	719	-430	-393
Interest received			255	254	264	273	128	49	80	94	132	257	264	268	293	217	290
Dividends received			255	254	264	273	236	208	243	271	306	340	399	541	731	1,004	1,075
Total Other Flows			255	254	264	273	236	133	442	135	-202	-177	274	1,039	1,743	791	972
TOTAL FLOWS TO PRIVATE SECTOR																	
			255	254	264	273	-1,122	-1,113	-639	31	-202	-177	274	-627	-2,305	-2,982	-695

(1) Cash flows from British Telecom to (the rest of) the public sector. Negative signs indicate that the company was a net recipient of public sector funds.

(2) Cash flows from British Telecom to (the rest of) the private sector. Negative signs indicate that the company was a net recipient of funds from the rest of the private sector.

(3) A negative entry indicates that British Telecom was a net recipient of financing from either the public sector (this would be shown in government statistics as a positive EFL) or the private sector.

Table 4.7: Electricity Companies (England and Wales)

PUBLIC SECTOR FLOWS <sup>1</sup>		31-Mar-80	31-Mar-81	31-Mar-82	31-Mar-83	31-Mar-84	31-Mar-85	31-Mar-86	31-Mar-87	31-Mar-88	31-Mar-89	31-Mar-90	31-Mar-91	31-Mar-92	31-Mar-93	31-Mar-94	31-Mar-95
Year ended																	
Net Privatisation Proceeds													2,887	2,329	1,465	117	1,667
Other Flows to Public Sector																	
External financing repayments <sup>3</sup>		-189	-140	221	154	485	-523	468	1,325	1,261	1,773	1,262	210	1,106	169	693	1,320
Debt repayments and share redemptions																	
Interest received on government debt		326	452	430	410	374	308	327	319	210	124	1	211	305	290	199	97
Corporation tax received													595	711	836	766	900
Dividends received														76	104	72	77
Other															-0.1	1	-0.3
Total Other Flows		137	312	651	564	859	-215	795	1,644	1,471	1,897	1,263	1,016	2,198	1,399	1,732	2,394
TOTAL FLOWS TO PUBLIC SECTOR		137	312	651	564	859	-215	795	1,644	1,471	1,897	1,263	3,903	4,527	2,864	1,849	4,061
PRIVATE SECTOR FLOWS <sup>2</sup>																	
Year ended		31-Mar-80	31-Mar-81	31-Mar-82	31-Mar-83	31-Mar-84	31-Mar-85	31-Mar-86	31-Mar-87	31-Mar-88	31-Mar-89	31-Mar-90	31-Mar-91	31-Mar-92	31-Mar-93	31-Mar-94	31-Mar-95
Share Purchases													-3,134	-2,329	-1,465	-117	-1,724
Other Flows to Private Sector																	
External financing repayments <sup>3</sup>		171	118	134	140	123	178	244	123	85	61	133	-196	-446	-485	-531	291
Interest received													53	95	112	153	231
Dividends received													35	546	406	517	983
Total Other Flows		171	118	134	140	123	178	244	123	85	61	133	-107	195	34	140	1,505
TOTAL FLOWS TO PRIVATE SECTOR		171	118	134	140	123	178	244	123	85	61	133	-3,241	-2,134	-1,431	24	-219

(1) Cash flows from the companies to (the rest of) the public sector. Negative signs indicate that the companies were net recipients of public sector funds.

(2) Cash flows from the companies to (the rest of) the private sector. Negative signs indicate that the companies were net recipients of funds from the rest of the private sector.

(3) A negative entry indicates that the companies were net recipients of financing from either the public sector (this would be shown in government statistics as a positive EFL) or the private sector.

**Table 4.8: Electricity Companies (Scotland)**

PUBLIC SECTOR FLOWS <sup>1</sup> (£ million)	31-Mar-80	31-Mar-81	31-Mar-82	31-Mar-83	31-Mar-84	31-Mar-85	31-Mar-86	31-Mar-87	31-Mar-88	31-Mar-89	31-Mar-90	31-Mar-91	31-Mar-92	31-Mar-93	31-Mar-94	31-Mar-95			
	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended			
<b>Net Privatisation Proceeds</b>																			
Other Flows to Public Sector																			
External financing repayments <sup>3</sup>	-114	-74	-68	-125	-233	-327	-190	-224	-129	-123	112	108	45	399		135			
Debt repayments and share redemptions																	22		
Interest received on government debt	75	89	106	128	140	139	131	117	122	154	134	127	67	52	30	121			
Corporation tax received																		3	
Dividends received																		-0.03	
Other																		280	
<b>Total Other Flows</b>	<b>-39</b>	<b>15</b>	<b>38</b>	<b>3</b>	<b>-93</b>	<b>-188</b>	<b>-59</b>	<b>-107</b>	<b>-7</b>	<b>31</b>	<b>246</b>	<b>235</b>	<b>114</b>	<b>559</b>	<b>152</b>	<b>280</b>			
<b>TOTAL FLOWS TO PUBLIC SECTOR</b>	<b>-39</b>	<b>15</b>	<b>38</b>	<b>3</b>	<b>-93</b>	<b>-188</b>	<b>-59</b>	<b>-107</b>	<b>-7</b>	<b>31</b>	<b>246</b>	<b>235</b>	<b>1,137</b>	<b>1,466</b>	<b>855</b>	<b>282</b>			
<b>PRIVATE SECTOR FLOWS <sup>2</sup></b>																			
<b>(£ million)</b>																			
<b>Share Purchases</b>																			
Other Flows to Private Sector																			
External financing repayments <sup>3</sup>																			
Interest received	48	53	44	45	49	78	114	141	160	135	6	3	25	16	1	5			
Dividends received																			
<b>Total Other Flows</b>	<b>48</b>	<b>53</b>	<b>44</b>	<b>45</b>	<b>49</b>	<b>78</b>	<b>114</b>	<b>141</b>	<b>160</b>	<b>135</b>	<b>6</b>	<b>3</b>	<b>77</b>	<b>133</b>	<b>148</b>	<b>-18</b>			
<b>TOTAL FLOWS TO PRIVATE SECTOR</b>	<b>48</b>	<b>53</b>	<b>44</b>	<b>45</b>	<b>49</b>	<b>78</b>	<b>114</b>	<b>141</b>	<b>160</b>	<b>135</b>	<b>6</b>	<b>3</b>	<b>-1,035</b>	<b>-774</b>	<b>-555</b>	<b>-20</b>			
<b>PRIVATE SECTOR FLOWS <sup>2</sup></b>																			
<b>(£ million)</b>																			
<b>Share Purchases</b>																			
Other Flows to Private Sector																			
External financing repayments <sup>3</sup>																			
Interest received	48	53	44	45	49	78	114	141	160	135	6	3	25	16	1	5			
Dividends received																			
<b>Total Other Flows</b>	<b>48</b>	<b>53</b>	<b>44</b>	<b>45</b>	<b>49</b>	<b>78</b>	<b>114</b>	<b>141</b>	<b>160</b>	<b>135</b>	<b>6</b>	<b>3</b>	<b>77</b>	<b>133</b>	<b>148</b>	<b>-18</b>			
<b>TOTAL FLOWS TO PRIVATE SECTOR</b>	<b>48</b>	<b>53</b>	<b>44</b>	<b>45</b>	<b>49</b>	<b>78</b>	<b>114</b>	<b>141</b>	<b>160</b>	<b>135</b>	<b>6</b>	<b>3</b>	<b>-1,035</b>	<b>-774</b>	<b>-555</b>	<b>-20</b>			

(1) Cash flows from the companies to (the rest of) the public sector. Negative signs indicate that the companies were net recipients of public sector funds.

(2) Cash flows from the companies to (the rest of) the private sector. Negative signs indicate that the companies were net recipients of funds from the rest of the private sector.

(3) A negative entry indicates that the companies were net recipients of financing from either the public sector (this would be shown in government statistics as a positive EFL) or the private sector.

**Table 4.9: Water and Sewerage Companies**

PUBLIC SECTOR FLOWS <sup>1</sup>		31-Mar-80	31-Mar-81	31-Mar-82	31-Mar-83	31-Mar-84	31-Mar-85	31-Mar-86	31-Mar-87	31-Mar-88	31-Mar-89	31-Mar-90	31-Mar-91	31-Mar-92	31-Mar-93	31-Mar-94	31-Mar-95
Year ended																	
Net Privatisation Proceeds <sup>4</sup>												292	1,487	1,485	86		
Other Flows to Public Sector																	
External financing repayments <sup>3</sup>		-300	-300	-300	-291	-350	-286	-208	-107	-34	-11	5					
Interest received on government debt		184	226	278	332	357	358	343	346	401	455	310					
Corporation tax received													72	129	137	120	119
Dividends received													6	6	6	2	4
Total Other Flows		-116	-74	-22	41	7	72	135	239	367	444	315	78	135	143	123	123
TOTAL FLOWS TO PUBLIC SECTOR		-116	-74	-22	41	7	72	135	239	367	444	607	1,565	1,620	229	123	123
PRIVATE SECTOR FLOWS <sup>2</sup>																	
Year ended		31-Mar-80	31-Mar-81	31-Mar-82	31-Mar-83	31-Mar-84	31-Mar-85	31-Mar-86	31-Mar-87	31-Mar-88	31-Mar-89	31-Mar-90	31-Mar-91	31-Mar-92	31-Mar-93	31-Mar-94	31-Mar-95
Share Purchases												-423	-1,487	-1,485	-86		
Other Flows to Private Sector																	
External financing repayments <sup>3</sup>		229	242	238	200	199	215	255	246	183	109	83	83	246	335	372	404
Interest received																	
Dividends received																	
Total Other Flows		229	242	238	200	199	215	255	246	183	109	10	-601	-1,172	-81	101	644
TOTAL FLOWS TO PRIVATE SECTOR		229	242	238	200	199	215	255	246	183	109	-413	-2,088	-2,657	-167	101	644

(1) Cash flows from the companies to (the rest of) the public sector. Negative signs indicate that the companies were net recipients of public sector funds.

(2) Cash flows from the companies to (the rest of) the private sector. Negative signs indicate that the companies were net recipients of funds from the rest of the private sector.

(3) A negative entry indicates that the companies were net recipients of financing from either the public sector (this would be shown in government statistics as a positive EFL) or the private sector.

(4) The data shown for 1989/90 are after deducting the cash injection of £1,499 million which was provided to the companies shortly before privatisation.

## 5. CONCLUSIONS

Table 5.1 shows the combined financial flows for all of the companies in our sample. As also shown in Figure 5.1 below, in the period from 1986/7 the Government has received a net inflow of between £6.7 billion and £11.6 billion a year in respect of companies which, taken as a whole, were net recipients of public sector funds in the early 1980s. Proceeds from the sale of shares in the companies, which have continued throughout the period, account for almost half of these receipts.

Even if we remove privatisation proceeds from the picture, the Government has received between £3.3 billion and £5.8 billion a year over these nine years. Corporation tax receipts account for almost 40% of these flows, reflecting the improved profitability of the companies. Interest payments and repayments of public sector debt from the companies account for a similar proportion, and the remainder is made up of EFL payments from companies still in the public sector and dividends received in respect of the Government's shareholdings in privatised companies.

Even though the private sector has been called on to provide substantial amounts of additional funding for the privatised companies, in almost every year this has been more than offset by increasingly large interest and dividend receipts from the companies. However, since the private sector has also been purchasing shares from the Government throughout this period, it has been a net provider of funds (to the Government in respect of the companies, and to the privatised companies themselves) in almost every year from 1984/5.

There are substantial differences in the ways in which individual privatisations have contributed to this overall picture. For some of the companies, including Associated British Ports, BAA, British Airways, British Steel and the water and sewerage companies, privatisation has led to a severing of most financial links with the public sector other than corporation tax payments. Some of these companies (BAA, British Airways and the water and sewerage companies) have paid more tax since privatisation, while for others (Associated British Ports, and in the last three years British Steel) there has been little or no change.

Probably the most surprising case is that of BT. Even if we ignore the proceeds from share sales (which, since the shares were sold in three tranches, have been spread over seven years), BT has continued to contribute between £1 billion and £2 billion a year to public sector funds. Corporation tax accounts for about half of these flows, with the rest split evenly between interest payments on government debt, debt repayments (or share redemptions) and dividend receipts. In contrast, in the years before privatisation BT contributed between £50 million and £625 million a year to public sector funds.

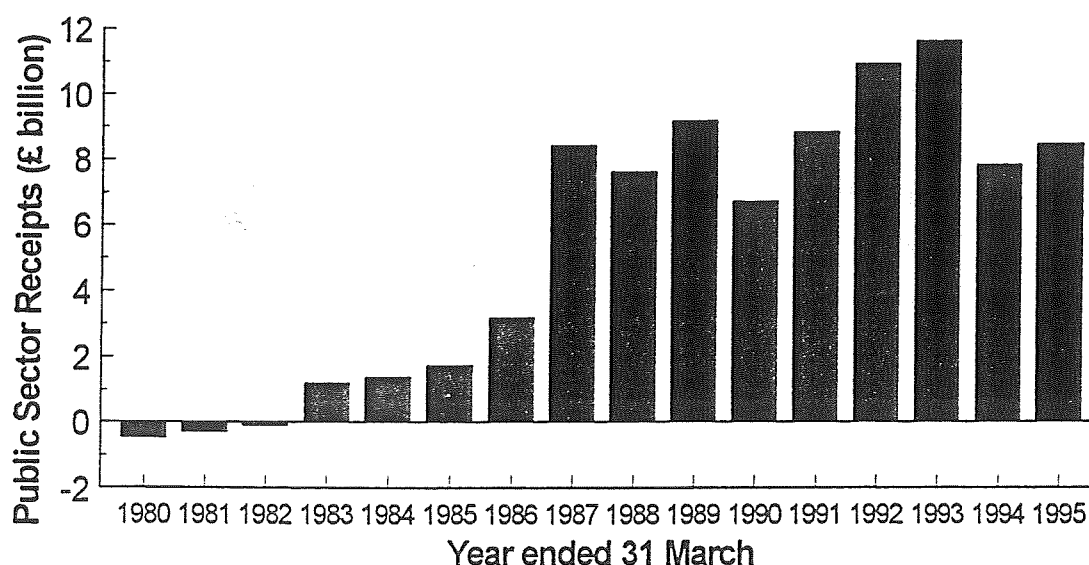
In the first few years after privatisation, British Gas too made substantial contributions to public sector funds, mainly as a result of interest on and repayments of public sector debt, but also due to higher corporation tax payments. Since paying off its remaining public sector debt in 1992, however, it has contributed only corporation tax payments to public

sector funds, and in the last two years these payments have been no different from those it was making before privatisation.

The privatised electricity companies in England, Wales and Scotland show signs of repeating the pattern established by British Gas. Though they have made substantial contributions to public sector finances in the relatively short period since privatisation, many of the companies have now repaid all of their public sector debt, and from 1995/6 the Government will receive only corporation tax payments from these particular companies. Even though the English and Welsh companies made corporation tax payments of £900 million in 1994/5, this is still below the contributions which the Government received from the companies in each of the four years before privatisation.

In the long run, most (perhaps all) privatised companies will pay off their public sector debt, and the Government may well dispose of any significant residual shareholdings. From this point, the privatised companies will have severed all direct links with public sector finances, apart from corporation tax. While the method of sale and the financial structure adopted for privatisation are determined by a number of factors, mainly related to the likely impact on the demand for shares, it is clear that these decisions have a profound effect on the flow of funds to the public sector. Where shares are sold in several tranches, and where companies are sold with significant amounts of public sector debt, the impact is to spread the flow of funds to the public sector over a number of years. Nevertheless, unless the Government decides to retain a significant shareholding, these other flows will eventually dry up, and corporation tax payments will provide the only remaining direct link between public sector finances and the privatised companies.

**Figure 5.1**  
Total Flows to the Public Sector



**Table 5.1: Combined Financial Flows for All 33 Companies**

PUBLIC SECTOR FLOWS <sup>1</sup>		31-Mar-80	31-Mar-81	31-Mar-82	31-Mar-83	31-Mar-84	31-Mar-85	31-Mar-86	31-Mar-87	31-Mar-88	31-Mar-89	31-Mar-90	31-Mar-91	31-Mar-92	31-Mar-93	31-Mar-94	31-Mar-95
Year ended																	
(£ million)																	
Net Privatisation Proceeds			44		1,255	1,246	3,132	2,786	3,337	1,752	4,690	6,400	6,002	4,497	3,336		
Other Flows to Public Sector																	
External financing repayments <sup>3</sup>		-1,199	-1,438	-1,366	-232	10	-804	81	1,752	1,397	2,031	1,379	318	45			
Debt repayments and share redemptions					25	44	61	1,061	273	585	892	450	817	1,212	1,407	817	2,140
Interest received on government debt		665	1,092	1,076	1,143	1,122	1,099	1,199	1,248	1,218	875	711	580	695	580	396	224
Corporation tax received		37	25	182	215	242	137	392	929	1,537	1,631	1,443	2,231	2,119	2,752	1,976	2,612
Dividends received		15	7			1	11	269	300	323	327	337	380	405	318	93	96
Other															504	1	-0.4
Total Other Flows		-483	-314	-107	1,151	1,374	468	1,902	5,242	4,778	5,792	4,926	4,090	4,476	5,559	3,283	5,072
<b>TOTAL FLOWS TO PUBLIC SECTOR</b>		<b>-483</b>	<b>-314</b>	<b>-107</b>	<b>1,195</b>	<b>1,374</b>	<b>1,723</b>	<b>3,148</b>	<b>8,374</b>	<b>7,563</b>	<b>9,129</b>	<b>6,678</b>	<b>8,780</b>	<b>10,876</b>	<b>11,561</b>	<b>7,780</b>	<b>8,408</b>
PRIVATE SECTOR FLOWS <sup>2</sup>																	
Year ended																	
(£ million)																	
Share (and Debt) Purchases			-46		-1,409	-1,246	-3,336	-2,827	-3,382	-1,883	-4,937	-6,596	-6,506	-4,593	-3,393		
Other Flows to Private Sector																	
External financing repayments <sup>3</sup>			-25		108	10	-129	272	-1,100	-1,315	-1,777	-3,854	-2,790	-1,876	-1,872	-72	
Interest received		655	907	919	917	856	795	667	591	664	798	853	1,280	1,530	1,508	1,716	
Dividends received					2	1	212	247	597	735	1,001	1,559	2,347	2,395	2,793	3,680	
Total Other Flows		655	907	919	892	867	904	879	1,186	88	23	-1,441	837	2,048	2,430	5,324	
<b>TOTAL FLOWS TO PRIVATE SECTOR</b>		<b>655</b>	<b>907</b>	<b>919</b>	<b>846</b>	<b>867</b>	<b>-505</b>	<b>-367</b>	<b>-2,150</b>	<b>-2,739</b>	<b>-3,298</b>	<b>-1,860</b>	<b>-6,379</b>	<b>-5,759</b>	<b>-4,458</b>	<b>-2,163</b>	<b>1,931</b>

(1) Cash flows from the companies to (the rest of) the public sector. Negative signs indicate that the companies were net recipients of public sector funds.

(2) Cash flows from the companies to (the rest of) the private sector. Negative signs indicate that the companies were net recipients of funds from the rest of the private sector.

(3) A negative entry indicates that the companies were net recipients of financing from either the public sector (this would be shown in government statistics as a positive EFL) or the private sector.





## APPENDIX 1. DETAILS OF DATA SOURCES AND ASSUMPTIONS

### 1.1. Use of Data from Company Annual Reports and Accounts

Wherever possible, we have used data from the Annual Report and Accounts for the year in question, rather than historical data shown in later reports (the two may differ if historical data have been restated to take account of minor changes in accounting practices).

For two companies - Associated British Ports and (since 1991) British Gas - which report results for calendar years, rather than the financial years (1 April to 31 March) used for government statistics and other companies' results, we have had to adjust the data shown in the Annual Reports and Accounts. Except where a transaction (such as a dividend payment or debt repayment) is known to have taken place on a certain date, the data have been converted to financial years simply by adding 25% of one year's data to 75% of the previous year's data.

### 1.2. Net Privatisation Proceeds

Historical data for privatisation proceeds are shown in *Public Expenditure* and similar H M Treasury publications. When showing flows to public sector finances, we have deducted the costs of each sale, which are shown in the reports published by the Comptroller and Auditor General (through the National Audit Office) on each of the sales except for Associated British Ports. For the latter, the Comptroller and Auditor General has reported estimated costs of £2.6 million for the sale of the first 49% of shares in 1983, which are partially offset by interest of £0.84 million earned on application money.<sup>21</sup> For the 1984 sale of a further 48.5% of shares, we have assumed net costs of £2 million (after deducting interest on application money). In the case of the water and sewerage companies, the data for 1989/90 are shown, as in the government's own statistics, after deducting the cash injection of £1.5 billion which was provided to the companies shortly before privatisation.

We have also included under this category the estimated proceeds from the Government's sale of its residual shareholdings in some of the companies. The sales, which are listed in *Her Majesty's Treasury Guide to the UK Privatisation Programme*, are:

- 1.42% of BAA shares in August 1990;
- 1% of British Airways shares in June 1987, and again in March 1990;
- 1.6% of British Gas shares in January 1990, and again in July 1990;
- 0.04% of British Steel shares in 1989;
- 0.8% of BT shares in December 1987, and a further 0.6% in January 1995;
- 0.8% of Regional Electricity Company shares in January 1994;
- 0.8% of water and sewerage company shares in January 1993.

<sup>21</sup> Source: Memorandum by the Comptroller and Auditor General, *Minutes of Evidence Taken Before the Public Accounts Committee*, 6 February 1984, HMSO.

In order to estimate the proceeds from these sales, we have obtained the average share price and the total number of shares issued in the month or year in question from EXTEL company profiles. Thus proceeds are estimated as:

$$\% \text{ of shares sold} \times \text{total number of shares issued} \times \text{share price.}$$

For other changes in the Government's shareholdings (usually less than 0.2% of shares) which are not listed in H M Treasury's guide, we have assumed that these are transactions, such as the issue of bonus shares, which do not generate additional revenue for the Government.

For the private sector, expenditure on purchases of shares and debt includes:

- gross privatisation proceeds, before deducting costs;
- purchases of the Government's residual shareholdings; and
- purchases from the Government of public sector debt owed by BT, as discussed in section 1.8 below, before deducting costs.

Private sector purchases of new shares and debt issued by the private companies themselves are included under external financing repayments, rather than purchases of shares and debt.

### 1.3. External Financing Repayments

For the nationalised industries, EFL outturns are shown in *Public Expenditure* and similar H M Treasury publications.<sup>22</sup> In the small number of cases where data have been revised in subsequent years' publications, we have generally used the revised data.

Government statistics show a single EFL for the electricity supply industry in England and Wales, and a further single figure for Scotland. In both cases the data cover nuclear power generation (which remained in the public sector) as well as the companies included in this study. Although it is possible to allocate EFLs for England and Wales between the Central Electricity Generating Board (CEGB) and the area electricity boards, we know of no legitimate way of sub-dividing the CEGB's share between nuclear power generation and other functions. Therefore we have not attempted to correct this inconsistency.

Data for the external financing provided to or from the private sector are taken from company Annual Reports and Accounts. They include short-term and long-term borrowing (including bank overdrafts), new share issues and the capital element of finance lease rentals. They do not include short term investing activities, or proceeds from shares issued under employee share schemes (where these are separately identified).

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<sup>22</sup> Data for BT's EFL in 1979/80 and the water companies' EFLs for 1979/80 to 1981/2 are taken from more recent tables showing historical data, and are shown only to the nearest £100 million. The data were not included in the detailed tables published at the time because BT was still part of the Post Office, and the water companies were funded from the overall budgets of the Department of the Environment and the Welsh Office rather than through separately identified EFLs.

#### 1.4. Debt Repayments and Share Redemptions

Repayments of public sector debt by the privatised companies, and redemption of the Government's preference shares by BT, are generally separately identified in the companies' Annual Reports and Accounts. These data were cross-checked with, and occasionally supplemented by, information obtained from the relevant sale prospectuses and reports by the Comptroller and Auditor General.

Under this heading, we have also included the repurchase of public sector debt, including the premium paid over its face value, by BT and some of the electricity companies. The combined costs of these sales and also those where the debt was sold instead to third parties, are shown under other flows (see section 1.8 below)

#### 1.5. Interest Received

While interest paid during the year is usually shown in the Cashflow Statements published in the companies' Annual Reports and Accounts since 1992, it was not generally included in the Source and Application of Funds Statements published prior to this. Where necessary, therefore, we have assumed that interest is paid in the year in which it falls due (i.e. interest paid = interest payable), and have also included the interest element of finance lease payments which is separately identified in some company accounts.

Most of the nationalised industries in our sample separately identified interest payments on NLF loans and other government debt in their Annual Reports and Accounts. The main exceptions are the water and sewerage companies, which include government debt in the breakdown of total interest payments only until 1982/3, and the Scottish electricity companies, which show the breakdown for some but not all years. In all years, however, the Annual Reports and Accounts show the composition of total creditors, and therefore we have assumed that the proportion of total interest payments attributable to government debt is the same as its share of total creditors at the start and end of each year.

As with EFLs, pre-privatisation interest payments on government debt are shown for the whole of the electricity supply industry in England and Wales, and by the two Scottish electricity boards, therefore covering nuclear power generation as well as the privatised companies included in this study. Since we know of no legitimate way of sub-dividing these payments between nuclear power generation and other functions, we have not attempted to correct this inconsistency.

After privatisation, interest payments on government debt are calculated from details of the amounts owing, the interest rate on the debt,<sup>23</sup> and the repayment dates. The results are consistent with the data contained in the Annual Reports and Accounts in the small number of cases where companies report these payments separately.

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<sup>23</sup> For some of the electricity companies, public sector debt attracts interest at the six month London Inter-Bank Offer Rate (LIBOR), for which we obtained data from the *Financial Times*.

Interest paid to the private sector (both before and after privatisation) is calculated simply by deducting interest paid on government debt from each company's total interest payments. The "private sector" in this context therefore comprises all parties other than the UK Government.

## 1.6. Tax Received

Most companies' Annual Reports and Accounts identify tax paid in each year. For the earlier part of the period, however, some company data do not show tax paid (as opposed to tax payable), and some company data do not distinguish between tax paid in respect of UK and overseas tax. In these cases, we have generally adopted the following assumptions:

- where tax paid is not shown, we have assumed it is equal to tax payable in respect of the previous year's profits, but excluding any adjustments for deferred tax or prior year adjustments. In years where the data show both tax payable and tax paid, this was the approach that was generally most consistent with the data;<sup>24</sup>
- where data for tax paid do not distinguish between UK and overseas tax, we have divided the data in the same proportions as for tax payable in the previous year (again excluding deferred tax and prior year adjustments).

## 1.7. Dividends Received

Since this study deals with cash flows, we focus on the dividends actually paid in each year. For any particular year, these are usually equivalent to the final dividend in respect of the previous year plus the interim dividend for the year in question, though in some cases while the relationship is robust in broad terms, the figures do not match precisely.

Information from company Annual Reports and Accounts, plus data from H M Treasury<sup>25</sup> on Government shareholdings in 1995 and disposals before this date, are generally sufficient to define the Government's residual shareholdings at the start and end of each financial year to the nearest 0.1%.

Where the Government has disposed of some of its shares during the year, then we have been able to compare the date of the disposal with the qualifying dates for interim and final dividend payments to see if dividend payments to the Government should be based on its shareholding before or after the disposal. For other changes in the Government's percentage shareholding in a company (usually 0.2% or less), we have assumed that such changes are spread throughout the year. Since the qualifying date for interim dividends tends to be close to the end of the financial year, and that for final dividends generally

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<sup>24</sup> In the case of British Steel, we have assumed that no tax was paid while the company was in the public sector. British Steel's accounts for this period actually show tax payable of between £4 million and -£1 million a year (and exceeding £2 million in one year only).

<sup>25</sup> *Her Majesty's Treasury Guide to the UK Privatisation Programme* and a separate table showing the Government's shareholdings in 1995.

between three and five months after the end of the financial year, we have calculated the Government's share of total dividends paid by the company in year  $t$  as:

$$([2/3 \text{ Govt}\%_{t-1} + 1/3 \text{ Govt}\%_t] \times \text{Final}_{t-1} + \text{Govt}\%_t \times \text{Interim}_t) \div (\text{Final}_{t-1} + \text{Interim}_t)$$

where  $\text{Govt}\%_t$  is the proportion of shares held by the Government at the end of year  $t$ , and  $\text{Final}_{t-1}$  and  $\text{Interim}_t$  are respectively the final dividend declared for year  $t-1$  and the interim dividend declared for year  $t$ . This formula has been adapted to cope with second interim or special dividends paid by some companies, and British Gas' switch to reporting on the basis of calendar years.

In some cases, moreover, there are small movements (again, generally less than 0.2%) in the proportion of shares held by the Government for which the timing is uncertain. We have assumed that such changes are spread evenly throughout the period in question. Table A1.1 shows these assumptions (in italics), together with the data obtained from company reports and other sources (in bold type).

As with interest payments, dividend payments to the private sector are calculated simply by deducting dividends paid to the Government from the total dividends paid by each company.

### 1.8. Other Flows

This category includes proceeds the sale of public sector debt to third parties, and from property clawback arrangements applying to some of the electricity companies.

Proceeds from the sale to third parties of public sector debt owed by BT, and also the costs of both these and other sales which resulted in government debt being bought back by BT and some of the electricity companies, are reported in two reports on these sales published (through the National Audit Office) by the Comptroller and Auditor General. In order to include these data in our results for individual companies or sectors, we have allocated the costs of the sales *pro rata* with the gross proceeds.

Finally, the Government's receipts from SWALEC under the clawback arrangements for electricity companies (whereby the Government receives half of all property gains above a certain threshold) are taken from the company's Annual Report and Accounts.

**Table A1.1: Summary of Data and Assumptions on Government Shareholdings**

	year ended	31-Mar-84	31-Mar-85	31-Mar-86	31-Mar-87	31-Mar-88	31-Mar-89	31-Mar-90	31-Mar-91	31-Mar-92	31-Mar-93	31-Mar-94	31-Mar-95
<b>% OF TOTAL SHARES ISSUED</b>													
Associated British Ports		48.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
British Airports Authority				100.0%	2.5%	4.4%	4.4%	4.4%	2.9%	2.9%	2.9%	2.9%	2.9%
British Airways					1.5%	1.5%	1.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.3%
British Gas					3.4%	3.4%	3.4%	1.7%	0.1%	0.1%	0.1%	0.03%	0.002%
British Steel							0.04%	0.01%	0.01%	0.01%	0.005%	0.003%	0.001%
British Telecom					49.7%	48.9%	48.7%	48.6%	47.9%	21.8%	21.9%	1.0%	0.5%
National Power			49.8%	49.8%	49.7%	48.9%	48.7%	48.6%	39.1%	39.1%	39.1%	39.2%	0.5%
Powergen									40.5%	40.5%	40.5%	39.7%	3.1%
National Grid Company									0.0%	0.0%	0.0%	0.0%	0.0%
Eastern Electricity									2.4%	1.3%	1.3%	0.7%	0.7%
East Midlands Electricity									2.5%	1.5%	1.5%	0.5%	0.5%
London Electricity									2.5%	1.5%	1.5%	0.6%	0.6%
MANWEB									2.5%	1.5%	1.5%	1.0%	1.0%
Midlands Electricity									2.3%	1.1%	1.1%	0.6%	0.7%
Northern Electricity									2.5%	1.5%	1.3%	0.7%	0.7%
NORWEB									2.5%	1.5%	1.5%	0.9%	0.9%
SEEBBOARD									2.5%	1.5%	1.5%	0.9%	0.9%
Southern Electricity									2.5%	1.5%	1.5%	0.3%	0.3%
SWALEC									2.5%	1.5%	1.5%	0.7%	0.7%
SWEB									3.0%	1.4%	1.4%	0.9%	1.1%
Yorkshire Electricity									2.5%	1.5%	1.5%	0.6%	0.6%
Scottish Hydro-Electric										3.4%	3.4%	3.4%	2.0%
Scottish Power										3.6%	3.6%	3.6%	2.3%
Anglian Water								1.6%	1.6%	1.6%	0.9%	0.9%	0.9%
Northumbrian Water								1.6%	1.6%	1.6%	0.4%	0.4%	0.4%
North West Water								1.6%	1.6%	1.6%	0.7%	0.7%	0.7%
Severn Trent Water								1.6%	1.6%	1.6%	1.0%	1.0%	1.0%
Southern Water								1.6%	1.6%	1.6%	0.7%	0.7%	0.7%
South West Water								0.3%	0.3%	0.3%	0.1%	0.1%	0.1%
Thames Water								2.6%	2.8%	3.0%	0.9%	0.9%	0.9%
Welsh Water								1.6%	1.6%	1.6%	0.7%	0.7%	0.7%
Wessex Water								1.6%	1.6%	1.6%	0.4%	0.4%	0.4%
Yorkshire Water								2.2%	1.6%	1.6%	0.7%	0.7%	0.7%

Sources: Company Annual Reports and Accounts, Her Majesty's Treasury Guide to the UK Privatisation Programme (August 1995)

Note: Data are shown in bold type, and assumptions in italics. Our assumptions were informed by the following information (from Her Majesty's Treasury Guide to the UK Privatisation Programme):

- the Government sold 48.5% of shares in Associated British Ports in April 1984;
- the Government initially retained 2.5% of British Airways shares, then sold 1% in June 1987 and again in March 1990;
- the Government sold 1.6% of British Gas shares in January 1990 and again in July 1990;
- the Government initially retained 0.05% of British Steel shares, then sold 0.04% during 1989 (calendar year);
- the Government initially retained 1.5% of Regional Electricity Company shares, then sold 0.8% in January 1994;
- the Government initially retained 1.62% of water and sewerage company shares, then sold 0.8% in January 1993.